

APPLE INC
Form 10-Q
July 25, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission file number: 000-10030

APPLE INC.

(Exact name of Registrant as specified in its charter)

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California
(State or other jurisdiction)

94-2404110
(I.R.S. Employer Identification No.)

of incorporation or organization)

1 Infinite Loop

Cupertino, California
(Address of principal executive offices)

95014
(Zip Code)

Registrant's telephone number, including area code: (408) 996-1010

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

937,406,000 shares of common stock issued and outstanding as of July 13, 2012

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****APPLE INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(in millions, except number of shares which are reflected in thousands and per share amounts)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-----------------|--------------------------|------------------|
| | June 30, | June 25, | June 30, | June 25, |
| | 2012 | 2011 | 2012 | 2011 |
| Net sales | \$ 35,023 | \$ 28,571 | \$ 120,542 | \$ 79,979 |
| Cost of sales | 20,029 | 16,649 | 66,281 | 47,541 |
| Gross margin | 14,994 | 11,922 | 54,261 | 32,438 |
| Operating expenses: | | | | |
| Research and development | 876 | 628 | 2,475 | 1,784 |
| Selling, general and administrative | 2,545 | 1,915 | 7,489 | 5,574 |
| Total operating expenses | 3,421 | 2,543 | 9,964 | 7,358 |
| Operating income | 11,573 | 9,379 | 44,297 | 25,080 |
| Other income and expense | 288 | 172 | 573 | 334 |
| Income before provision for income taxes | 11,861 | 9,551 | 44,870 | 25,414 |
| Provision for income taxes | 3,037 | 2,243 | 11,360 | 6,115 |
| Net income | \$ 8,824 | \$ 7,308 | \$ 33,510 | \$ 19,299 |
| Earnings per common share: | | | | |
| Basic | \$ 9.42 | \$ 7.89 | \$ 35.89 | \$ 20.91 |
| Diluted | \$ 9.32 | \$ 7.79 | \$ 35.48 | \$ 20.63 |
| Shares used in computing earnings per share: | | | | |
| Basic | 936,596 | 926,108 | 933,672 | 922,917 |
| Diluted | 947,059 | 937,810 | 944,440 | 935,688 |

See accompanying Notes to Condensed Consolidated Financial Statements.

APPLE INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in millions, except number of shares which are reflected in thousands)

| | June 30, 2012 | September 24, 2011 |
|--|-------------------|-----------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,945 | \$ 9,815 |
| Short-term marketable securities | 19,709 | 16,137 |
| Accounts receivable, less allowances of \$94 and \$53, respectively | 7,657 | 5,369 |
| Inventories | 1,122 | 776 |
| Deferred tax assets | 2,309 | 2,014 |
| Vendor non-trade receivables | 6,641 | 6,348 |
| Other current assets | 6,560 | 4,529 |
| Total current assets | 51,943 | 44,988 |
| Long-term marketable securities | 89,567 | 55,618 |
| Property, plant and equipment, net | 10,487 | 7,777 |
| Goodwill | 1,132 | 896 |
| Acquired intangible assets, net | 4,329 | 3,536 |
| Other assets | 5,438 | 3,556 |
| Total assets | \$ 162,896 | \$ 116,371 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Accounts payable | \$ 16,808 | \$ 14,632 |
| Accrued expenses | 10,430 | 9,247 |
| Deferred revenue | 5,822 | 4,091 |
| Total current liabilities | 33,060 | 27,970 |
| Deferred revenue - non-current | 2,530 | 1,686 |
| Other non-current liabilities | 15,560 | 10,100 |
| Total liabilities | 51,150 | 39,756 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock, no par value; 1,800,000 shares authorized; 937,266 and 929,277 shares issued and outstanding, respectively | 15,573 | 13,331 |
| Retained earnings | 95,641 | 62,841 |
| Accumulated other comprehensive income | 532 | 443 |
| Total shareholders' equity | 111,746 | 76,615 |
| Total liabilities and shareholders' equity | \$ 162,896 | \$ 116,371 |

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See accompanying Notes to Condensed Consolidated Financial Statements.

APPLE INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in millions)

| | Nine Months Ended | |
|--|-------------------|------------------|
| | June 30, 2012 | June 25, 2011 |
| Cash and cash equivalents, beginning of the period | \$ 9,815 | \$ 11,261 |
| Operating activities: | | |
| Net income | 33,510 | 19,299 |
| Adjustments to reconcile net income to cash generated by operating activities: | | |
| Depreciation, amortization and accretion | 2,296 | 1,271 |
| Share-based compensation expense | 1,292 | 870 |
| Deferred income tax expense | 4,066 | 2,232 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (2,278) | (592) |
| Inventories | (346) | 162 |
| Vendor non-trade receivables | (293) | (955) |
| Other current and non-current assets | (3,238) | (1,551) |
| Accounts payable | 2,450 | 2,480 |
| Deferred revenue | 2,575 | 1,276 |
| Other current and non-current liabilities | 1,686 | 2,608 |
| Cash generated by operating activities | 41,720 | 27,100 |
| Investing activities: | | |
| Purchases of marketable securities | (121,091) | (75,133) |
| Proceeds from maturities of marketable securities | 10,344 | 16,396 |
| Proceeds from sales of marketable securities | 73,140 | 34,301 |
| Payments made in connection with business acquisitions, net of cash acquired | (350) | 0 |
| Payments for acquisition of property, plant and equipment | (4,834) | (2,615) |
| Payments for acquisition of intangible assets | (1,067) | (266) |
| Other | (56) | 34 |
| Cash used in investing activities | (43,914) | (27,283) |
| Financing activities: | | |
| Proceeds from issuance of common stock | 433 | 577 |
| Excess tax benefits from equity awards | 1,036 | 915 |
| Taxes paid related to net share settlement of equity awards | (1,145) | (479) |
| Cash generated by financing activities | 324 | 1,013 |
| (Decrease)/increase in cash and cash equivalents | (1,870) | 830 |
| Cash and cash equivalents, end of the period | \$ 7,945 | \$ 12,091 |
| Supplemental cash flow disclosure: | | |
| Cash paid for income taxes, net | \$ 5,901 | \$ 2,563 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 Summary of Significant Accounting Policies

Apple Inc. and its wholly-owned subsidiaries (collectively "Apple" or the "Company") designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. The Company sells its products worldwide through its retail stores, online stores, and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and value-added resellers. In addition, the Company sells a variety of third-party iPhone, iPad, Macintosh ("Mac"), and iPod compatible products including application software and various accessories through its online and retail stores. The Company sells to consumers, small and mid-sized businesses, and education, enterprise and government customers.

Basis of Presentation and Preparation

The accompanying condensed consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. The preparation of these condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in these condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. Prior period costs associated with the Company's high-profile retail stores have been reclassified to conform to the current period's presentation. Refer to Note 7, Segment Information and Geographic Data, of this Form 10-Q.

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company's annual consolidated financial statements and the notes thereto for the fiscal year ended September 24, 2011, included in its Annual Report on Form 10-K (the "2011 Form 10-K"). The Company's fiscal year is the 52 or 53-week period that ends on the last Saturday of September. The Company's fiscal year 2012 will include 53-weeks and ends on September 29, 2012. An additional week has been included in the first quarter of 2012 to realign the Company's fiscal quarters more closely to calendar quarters. Unless otherwise stated, references to particular years or quarters refer to the Company's fiscal years ended in September and the associated quarters of those fiscal years.

Earnings Per Common Share

Basic earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the Company's employee stock purchase plan and unvested restricted stock units ("RSUs"). The dilutive effect of potentially dilutive securities is reflected in diluted earnings per common share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

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The following table shows the computation of basic and diluted earnings per common share for the three- and nine-month periods ended June 30, 2012 and June 25, 2011 (in thousands, except net income in millions and per share amounts):

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|------------------|-------------------|------------------|
| | June 30, 2012 | June 25, 2011 | June 30, 2012 | June 25, 2011 |
| Numerator: | | | | |
| Net income | \$ 8,824 | \$ 7,308 | \$ 33,510 | \$ 19,299 |
| Denominator: | | | | |
| Weighted-average shares outstanding | 936,596 | 926,108 | 933,672 | 922,917 |
| Effect of dilutive securities | 10,463 | 11,702 | 10,768 | 12,771 |
| Weighted-average diluted shares | 947,059 | 937,810 | 944,440 | 935,688 |
| Basic earnings per common share | \$ 9.42 | \$ 7.89 | \$ 35.89 | \$ 20.91 |
| Diluted earnings per common share | \$ 9.32 | \$ 7.79 | \$ 35.48 | \$ 20.63 |

The number of potentially dilutive securities excluded from the computation of diluted earnings per common share because their effect would have been antidilutive was not significant for the three- and nine-month periods ended June 30, 2012 and June 25, 2011.

Fair Value Measurements

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Note 2 Financial Instruments**Cash, Cash Equivalents and Marketable Securities**

The following tables show the Company's cash and available-for-sale securities' adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short- and long-term marketable securities as of June 30, 2012 and September 24, 2011 (in millions):

| | June 30, 2012 | | | | | | | |
|---|------------------|---------------------|----------------------|---------------|---------------------------------|--|---------------------------------------|--|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Short-Term Marketable Securities | Long-Term Marketable Securities | |
| Cash | \$ 3,269 | \$ 0 | \$ 0 | \$ 3,269 | \$ 3,269 | \$ 0 | \$ 0 | |
| Level 1: | | | | | | | | |
| Money market funds | 1,181 | 0 | 0 | 1,181 | 1,181 | 0 | 0 | |
| Mutual funds | 1,894 | 34 | (17) | 1,911 | 0 | 1,911 | 0 | |
| Subtotal | 3,075 | 34 | (17) | 3,092 | 1,181 | 1,911 | 0 | |
| Level 2: | | | | | | | | |
| U.S. Treasury securities | 20,587 | 10 | (6) | 20,591 | 1,100 | 4,169 | 15,322 | |
| U.S. agency securities | 19,197 | 41 | (3) | 19,235 | 479 | 2,026 | 16,730 | |
| Non-U.S. government securities | 6,919 | 103 | (7) | 7,015 | 1 | 1,842 | 5,172 | |
| Certificates of deposit and time deposits | 2,411 | 2 | 0 | 2,413 | 857 | 377 | 1,179 | |
| Commercial paper | 2,301 | 0 | 0 | 2,301 | 991 | 1,310 | 0 | |
| Corporate securities | 44,545 | 306 | (31) | 44,820 | 24 | 7,482 | 37,314 | |
| Municipal securities | 5,541 | 61 | (3) | 5,599 | 43 | 588 | 4,968 | |
| Mortgage- and asset-backed securities | 8,867 | 24 | (5) | 8,886 | 0 | 4 | 8,882 | |
| Subtotal | 110,368 | 547 | (55) | 110,860 | 3,495 | 17,798 | 89,567 | |
| Total | \$ 116,712 | \$ 581 | \$ (72) | \$ 117,221 | \$ 7,945 | \$ 19,709 | \$ 89,567 | |

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| | September 24, 2011 | | | | | | | |
|---|--------------------|------------------|-------------------|------------|---------------------------|----------------------------------|---------------------------------|--|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Short-Term Marketable Securities | Long-Term Marketable Securities | |
| Cash | \$ 2,903 | \$ 0 | \$ 0 | \$ 2,903 | \$ 2,903 | \$ 0 | \$ 0 | |
| Level 1: | | | | | | | | |
| Money market funds | 1,911 | 0 | 0 | 1,911 | 1,911 | 0 | 0 | |
| Mutual funds | 1,227 | 0 | (34) | 1,193 | 0 | 1,193 | 0 | |
| Subtotal | 3,138 | 0 | (34) | 3,104 | 1,911 | 1,193 | 0 | |
| Level 2: | | | | | | | | |
| U.S. Treasury securities | 10,717 | 39 | (3) | 10,753 | 1,250 | 2,149 | 7,354 | |
| U.S. agency securities | 13,467 | 24 | (3) | 13,488 | 225 | 1,818 | 11,445 | |
| Non-U.S. government securities | 5,559 | 11 | (2) | 5,568 | 551 | 1,548 | 3,469 | |
| Certificates of deposit and time deposits | 4,175 | 2 | (2) | 4,175 | 728 | 977 | 2,470 | |
| Commercial paper | 2,853 | 0 | 0 | 2,853 | 2,237 | 616 | 0 | |
| Corporate securities | 35,241 | 132 | (114) | 35,259 | 10 | 7,241 | 28,008 | |
| Municipal securities | 3,411 | 56 | 0 | 3,467 | 0 | 595 | 2,872 | |
| Subtotal | 75,423 | 264 | (124) | 75,563 | 5,001 | 14,944 | 55,618 | |
| Total | \$ 81,464 | \$ 264 | \$ (158) | \$ 81,570 | \$ 9,815 | \$ 16,137 | \$ 55,618 | |

The net unrealized gains as of June 30, 2012 and September 24, 2011 are related primarily to long-term marketable securities. The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The net realized gains or losses recognized during the three- and nine-month periods ended June 30, 2012 and June 25, 2011 related to such sales were not significant. The maturities of the Company's long-term marketable securities generally range from one to five years.

As of June 30, 2012 and September 24, 2011, gross unrealized losses related to individual securities that had been in a continuous loss position for 12 months or longer were not significant.

As of June 30, 2012, the Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature and does not consider any of its investments other-than-temporarily impaired. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, and the Company's intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis. During the three- and nine-month periods ended June 30, 2012 and June 25, 2011, the Company did not recognize any significant impairment charges.

Derivative Financial Instruments

The Company uses derivatives to partially offset its business exposure to foreign currency exchange risk. The Company may enter into foreign currency forward and option contracts to offset some of the foreign exchange risk on expected future cash flows on certain forecasted revenue and cost of sales, on net investments in certain foreign subsidiaries, and on certain existing assets and liabilities.

To help protect gross margins from fluctuations in foreign currency exchange rates, certain of the Company's subsidiaries whose functional currency is the U.S. dollar hedge a portion of forecasted foreign currency revenue. The Company's subsidiaries whose functional currency is not the U.S. dollar and who sell in local currencies may hedge a portion of forecasted inventory purchases not denominated in the subsidiaries' functional currencies. The Company typically hedges portions of its forecasted foreign currency exposure associated with revenue and inventory purchases generally up to six months.

To help protect the net investment in a foreign operation from adverse changes in foreign currency exchange rates, the Company may enter into foreign currency forward and option contracts to offset the changes in the carrying amounts of these investments due to fluctuations in foreign currency exchange rates.

The Company may also enter into foreign currency forward and option contracts to partially offset the foreign currency exchange gains and losses generated by the re-measurement of certain assets and liabilities denominated in non-functional currencies. However, the Company may choose not to hedge certain foreign currency exchange exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates.

The Company records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The Company's accounting treatment of these instruments are based on whether the instruments are designated as hedge or non-hedge instruments. The effective portions of cash flow hedges are recorded in accumulated other comprehensive income (AOCI) until the hedged item is recognized in earnings. The effective portions of net investment hedges are recorded in other comprehensive income as a part of the cumulative translation adjustment. The ineffective portions of cash flow hedges and net investment hedges are recorded in other income and expense. Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the financial statement line item to which the derivative relates.

The Company had a net deferred gain associated with cash flow hedges of \$201 million and \$290 million, net of taxes, recorded in AOCI as of June 30, 2012 and September 24, 2011, respectively. Deferred gains and losses associated with cash flow hedges of forecasted foreign currency revenue are recognized as a component of net sales in the same period as the related revenue is recognized, and deferred gains and losses related to cash flow hedges of forecasted inventory purchases are recognized as a component of cost of sales in the same period as the related costs are recognized. Substantially all of the Company's hedged transactions as of June 30, 2012 are expected to occur within six months.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Deferred gains and losses in AOCI associated with such derivative instruments are reclassified immediately into other income and expense. Any subsequent changes in fair value of such derivative instruments are reflected in other income and expense unless they are re-designated as hedges of other transactions. The Company did not recognize any significant net gains or losses related to the loss of hedge designation on discontinued cash flow hedges during the three- and nine-month periods ended June 30, 2012 and June 25, 2011.

The Company's unrealized net gains and losses on net investment hedges, included in the cumulative translation adjustment account of AOCI, were not significant as of June 30, 2012 and September 24, 2011, respectively. The ineffective portions of and amounts excluded from the effectiveness test of net investment hedges are recorded in other income and expense.

During the three and nine-month periods ended June 30, 2012 and June 25, 2011, the gain/loss recognized in other income and expense for foreign currency forward and option contracts not designated as hedging instruments was not significant. These amounts represent the net gain or loss on the derivative contracts and do not include changes in the related exposures, which generally offset a portion of the gain or loss on the derivative contracts.

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The following table shows the notional principal amounts of the Company's outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of June 30, 2012 and September 24, 2011 (in millions):

| | June 30, 2012 | | September 24, 2011 | |
|---|--------------------|---------------------|--------------------|---------------------|
| | Notional Principal | Credit Risk Amounts | Notional Principal | Credit Risk Amounts |
| Instruments designated as accounting hedges: | | | | |
| Foreign exchange contracts | \$ 33,892 | \$ 569 | \$ 13,705 | \$ 537 |
| Instruments not designated as accounting hedges: | | | | |
| Foreign exchange contracts | \$ 10,637 | \$ 40 | \$ 9,891 | \$ 56 |

The notional principal amounts for outstanding derivative instruments provide one measure of the transaction volume outstanding and does not represent the amount of the Company's exposure to credit or market loss. The credit risk amounts represent the Company's gross exposure to potential accounting loss on derivative instruments that are outstanding or unsettled if all counterparties failed to perform according to the terms of the contract, based on then-current currency exchange rates at each respective date. The Company's gross exposure on these transactions may be further mitigated by collateral received from certain counterparties. The Company's exposure to credit loss and market risk will vary over time as a function of currency exchange rates. Although the table above reflects the notional principal and credit risk amounts of the Company's foreign exchange instruments, it does not reflect the gains or losses associated with the exposures and transactions that the foreign exchange instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

The Company generally enters into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. The Company presents its derivative assets and derivative liabilities at their gross fair values. The Company received cash collateral related to the derivative instruments under its collateral security arrangements of \$492 million and \$288 million as of June 30, 2012 and September 24, 2011, respectively. These amounts are classified as accrued expenses in the Condensed Consolidated Balance Sheets. The Company did not have any derivative instruments with credit risk-related contingent features that would require it to post additional collateral as of June 30, 2012 or September 24, 2011.

The following tables show the Company's derivative instruments at gross fair value as reflected in the Condensed Consolidated Balance Sheets as of June 30, 2012 and September 24, 2011 (in millions):

| | June 30, 2012 | | Total Fair Value |
|------------------------------------|---|---|------------------|
| | Fair Value of Derivatives Designated as Hedge Instruments | Fair Value of Derivatives Not Designated as Hedge Instruments | |
| Derivative assets (a): | | | |
| Foreign exchange contracts | \$ 548 | \$ 40 | \$ 588 |
| Derivative liabilities (b): | | | |
| Foreign exchange contracts | \$ 165 | \$ 13 | \$ 178 |

| | Fair Value of Derivatives Designated as Hedge Instruments | September 24, 2011 Fair Value of Derivatives Not Designated as Hedge Instruments | Total Fair Value |
|-----------------------------|---|---|---------------------|
| Derivative assets (a): | | | |
| Foreign exchange contracts | \$ 460 | \$ 56 | \$ 516 |
| Derivative liabilities (b): | | | |
| Foreign exchange contracts | \$ 72 | \$ 37 | \$ 109 |

(a) The fair value of derivative assets is measured using Level 2 fair value inputs and is recorded as other current assets in the Condensed Consolidated Balance Sheets.

(b) The fair value of derivative liabilities is measured using Level 2 fair value inputs and is recorded as accrued expenses in the Condensed Consolidated Balance Sheets.

The following tables show the pre-tax effect of the Company's derivative instruments designated as cash flow and net investment hedges in the Condensed Consolidated Statements of Operations for the three- and nine-month periods ended June 30, 2012 and June 25, 2011 (in millions):

| | Three Months Ended | | | | | | | |
|----------------------------|--|------------------|--|----------------------|--|------------------|--------------|--|
| | Gains/(Losses) | | | | Gains/(Losses) Recognized - | | | |
| | Recognized in OCI - Effective Portion (e) | | Reclassified from AOCI into Income - Effective Portion (e) | | Ineffective Portion and Amount Excluded from Effectiveness Testing | | Location | |
| | June 30, 2012 | June 25, 2011 | June 30, 2012 (a) | June 25, 2011 (b) | June 30, 2012 | June 25, 2011 | | |
| Cash flow hedges: | | | | | | | | |
| Foreign exchange contracts | \$ 234 | \$ 12 | \$ 84 | \$ (162) | Other income | \$ (39) | \$ 15 | |
| | | | | | and expense | | | |
| Net investment hedges: | | | | | | | | |
| Foreign exchange contracts | 3 | (7) | 0 | 0 | Other income | 1 | 1 | |
| | | | | | and expense | | | |
| Total | \$ 237 | \$ 5 | \$ 84 | \$ (162) | | \$ (38) | \$ 16 | |

Additionally, the Company has non-trade receivables from certain of its manufacturing vendors. Vendor non-trade receivables from two of the Company's vendors accounted for 56% and 26% of non-trade receivables as of June 30, 2012 and two of the Company's vendors accounted for 53% and 29% of non-trade receivables as of September 24, 2011.

Note 3 Condensed Consolidated Financial Statement Details

The following tables show the Company's condensed consolidated financial statement details as of June 30, 2012 and September 24, 2011 (in millions):

Property, Plant and Equipment

| | June 30, 2012 | September 24, 2011 |
|--|---------------|--------------------|
| Land and buildings | \$ 2,315 | \$ 2,059 |
| Machinery, equipment and internal-use software | 10,576 | 6,926 |
| Office furniture and equipment | 228 | 184 |
| Leasehold improvements | 3,086 | 2,599 |
| Gross property, plant and equipment | 16,205 | 11,768 |
| Accumulated depreciation and amortization | (5,718) | (3,991) |
| Net property, plant and equipment | \$ 10,487 | \$ 7,777 |

Accrued Expenses

| | June 30, 2012 | September 24, 2011 |
|--|---------------|--------------------|
| Accrued taxes | \$ 1,598 | \$ 1,140 |
| Accrued warranty and related costs | 1,565 | 1,240 |
| Deferred margin on component sales | 1,279 | 2,038 |
| Accrued compensation and employee benefits | 765 | 590 |
| Accrued marketing and selling expenses | 581 | 598 |
| Other current liabilities | 4,642 | 3,641 |
| Total accrued expenses | \$ 10,430 | \$ 9,247 |

Non-Current Liabilities

| | June 30, 2012 | September 24, 2011 |
|-------------------------------------|---------------|--------------------|
| Deferred tax liabilities | \$ 13,195 | \$ 8,159 |
| Other non-current liabilities | 2,365 | 1,941 |
| Total other non-current liabilities | \$ 15,560 | \$ 10,100 |

Note 4 Income Taxes

As of June 30, 2012, the Company recorded gross unrecognized tax benefits of \$1.8 billion, of which \$792 million, if recognized, would affect the Company's effective tax rate. As of September 24, 2011, the total amount of gross unrecognized tax benefits was \$1.4 billion, of which \$563 million, if recognized, would affect the Company's effective tax rate. The Company's total gross unrecognized tax benefits are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets. The Company had \$343 million and \$261 million of gross interest and

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penalties accrued as of June 30, 2012 and September 24, 2011, respectively, which are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs. Although timing of the resolution and/or closure of audits is not certain, the Company believes it is reasonably possible that tax audit resolutions could reduce its unrecognized tax benefits by between \$120 million and \$170 million in the next 12 months.

Note 5 Shareholders Equity and Share-based Compensation**Preferred Stock**

The Company has five million shares of authorized preferred stock, none of which is issued or outstanding. Under the terms of the Company's Restated Articles of Incorporation, the Board of Directors is authorized to determine or alter the rights, preferences, privileges and restrictions of the Company's authorized but unissued shares of preferred stock.

Comprehensive Income

Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, and gains and losses that under GAAP are recorded as an element of shareholders' equity but are excluded from net income. The Company's other comprehensive income consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, unrealized gains and losses on marketable securities classified as available-for-sale, and net deferred gains and losses on certain derivative instruments accounted for as cash flow hedges.

The following table presents the components of comprehensive income, net of taxes, during the three- and nine-month periods ended June 30, 2012 and June 25, 2011 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|--------------------------|--------------------------|--------------------------|
| | June 30, 2012 | June 25, 2011 | June 30, 2012 | June 25, 2011 |
| Net income | \$ 8,824 | \$ 7,308 | \$ 33,510 | \$ 19,299 |
| Other comprehensive income: | | | | |
| Change in unrecognized gains/losses on derivative instruments | 96 | 112 | (89) | 273 |
| Change in foreign currency translation | (91) | 11 | (88) | 101 |
| Change in unrealized gains/losses on marketable securities | 3 | 140 | 266 | 61 |
| Total comprehensive income | \$ 8,832 | \$ 7,571 | \$ 33,599 | \$ 19,734 |

The following table summarizes activity in other comprehensive income related to derivatives, net of taxes, held by the Company during the three- and nine-month periods ended June 30, 2012 and June 25, 2011 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|--------------------------|--------------------------|--------------------------|
| | June 30, 2012 | June 25, 2011 | June 30, 2012 | June 25, 2011 |
| Change in fair value of derivatives | \$ 150 | \$ 8 | \$ 216 | \$ (175) |
| Adjustment for net gains/losses realized and included in net income | (54) | 104 | (305) | 448 |
| Change in unrecognized gains/losses on derivative instruments | \$ 96 | \$ 112 | \$ (89) | \$ 273 |

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The following table shows the components of AOCI, net of taxes, as of June 30, 2012 and September 24, 2011 (in millions):

| | June 30, 2012 | September 24, 2011 |
|---|---------------|--------------------|
| Net unrealized gains/losses on marketable securities | \$ 396 | \$ 130 |
| Net unrecognized gains/losses on derivative instruments | 201 | 290 |
| Cumulative foreign currency translation | (65) | 23 |
| Accumulated other comprehensive income | \$ 532 | \$ 443 |

Equity Awards

A summary of the Company's RSU activity and related information for the nine months ended June 30, 2012 is as follows (in thousands, except weighted-average grant date fair value amounts):

| | Number of RSUs | Weighted- Average Grant Date Fair Value | Aggregate Intrinsic Value |
|-------------------------------|-------------------|--|---------------------------------|
| Balance at September 24, 2011 | 14,446 | \$ 231.49 | |
| RSUs granted | 7,223 | \$ 414.88 | |
| RSUs vested | (5,955) | \$ 202.92 | |
| RSUs cancelled | (812) | \$ 245.20 | |
| Balance at June 30, 2012 | 14,902 | \$ 331.05 | \$ 8,702,991 |

RSUs that vested during the three- and nine-month periods ended June 30, 2012 had fair values of \$1.5 billion and \$3.1 billion, respectively, as of their applicable vesting dates. RSUs that vested during the three- and nine-month periods ended June 25, 2011 had fair values of \$637 million and \$1.4 billion, respectively, as of their applicable vesting dates.

A summary of the Company's stock option activity and related information for the nine months ended June 30, 2012 is as follows (in thousands, except weighted-average exercise price amounts and weighted-average remaining contractual term in years):

| | Number of Options | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--------------------------------------|----------------------|---|--|---------------------------------|
| Balance at September 24, 2011 | 11,866 | \$ 108.64 | | |
| Options granted | | \$ | | |
| Options assumed | 41 | \$ 30.92 | | |
| Options cancelled | (23) | \$ 103.35 | | |
| Options exercised | (3,910) | \$ 85.19 | | |
| Balance at June 30, 2012 | 7,974 | \$ 119.75 | 1.9 | \$ 3,702,090 |
| Exercisable at June 30, 2012 | 7,869 | \$ 119.93 | 1.9 | \$ 3,652,052 |
| Expected to vest after June 30, 2012 | 105 | \$ 106.00 | 4.9 | \$ 50,039 |

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Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the weighted-average exercise price multiplied by the number of options outstanding or exercisable. The total intrinsic value of options at the time of exercise was \$332 million and \$1.5 billion for the three- and nine-month periods ended June 30, 2012, respectively, and \$248 million and \$2.1 billion for the three- and nine-month periods ended June 25, 2011, respectively.

The Company had approximately 38.2 million shares reserved for future issuance under the Company's stock plans as of June 30, 2012. RSUs granted are deducted from the shares available for grant under the Company's stock plans utilizing a factor of two times the number of RSUs granted. Similarly, RSUs cancelled are added back to the shares available for grant under the Company's stock plans utilizing a factor of two times the number of RSUs cancelled.

Share-based Compensation

Share-based compensation cost for RSUs is measured based on the closing fair market value of the Company's common stock on the date of grant. Share-based compensation cost for stock options and employee stock purchase plan rights (stock purchase rights) is estimated at the grant date and offering date, respectively, based on the fair-value as calculated by the Black-Scholes Merton (BSM) option-pricing model. The BSM option-pricing model incorporates various assumptions including expected volatility, expected life and interest rates. The expected volatility is based on the historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options and other relevant factors including implied volatility in market traded options on the Company's common stock. The Company bases its expected life assumption on its historical experience and on the terms and conditions of the stock awards it grants to employees. The Company recognizes share-based compensation cost as expense on a straight-line basis over the requisite service period.

During the nine-month period ended June 30, 2012, in conjunction with certain business combinations, the Company assumed 41,000 stock options with a weighted-average fair value per share of \$400.79.

The weighted-average fair value per share of stock purchase rights was \$114.01 and \$102.41 during the three- and nine-month periods ended June 30, 2012, respectively, and was \$72.63 and \$67.70 during the three- and nine-month periods ended June 25, 2011, respectively.

The following table provides a summary of the share-based compensation expense included in the Condensed Consolidated Statements of Operations for the three- and nine-month periods ended June 30, 2012 and June 25, 2011 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | June 30, 2012 | June 25, 2011 | June 30, 2012 | June 25, 2011 |
| Cost of sales | \$ 70 | \$ 52 | \$ 196 | \$ 155 |
| Research and development | 172 | 119 | 500 | 336 |
| Selling, general and administrative | 206 | 113 | 596 | 379 |
| Total share-based compensation expense | \$ 448 | \$ 284 | \$ 1,292 | \$ 870 |

The income tax benefit related to share-based compensation expense was \$131 million and \$432 million for the three- and nine-month periods ended June 30, 2012, respectively, and \$113 million and \$349 million for the three- and nine-month periods ended June 25, 2011, respectively. As of June 30, 2012, the total unrecognized compensation cost related to outstanding stock options and RSUs expected to vest was \$4.3 billion, which the Company expects to recognize over a weighted-average period of 3.4 years.

Employee Benefit Plans

Rule 10b5-1 Trading Plans

During the three-month period ended June 30, 2012, executive officers Timothy D. Cook, Peter Oppenheimer, D. Bruce Sewell, Philip W. Schiller, and Jeffrey E. Williams, and directors William V. Campbell and Arthur D. Levinson had equity trading plans adopted in accordance with Rule 10b5-1(c)(1) of the Securities Exchange Act of 1934, as amended (the Exchange Act). An equity trading plan is a written document that pre-establishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of the Company's stock, including shares acquired pursuant to the Company's employee equity plans.

Dividend and Stock Repurchase Program

In March 2012, the Board of Directors of the Company approved a dividend policy pursuant to which it plans to make, subject to subsequent declaration, quarterly dividends of \$2.65 per share, beginning in the fourth quarter of 2012. Additionally, in March 2012, the Company's Board of Directors authorized a program to repurchase up to \$10 billion of the Company's common stock beginning in 2013. The repurchase program is expected to be executed over a three-year period with the primary objective of neutralizing the impact of dilution from future employee equity grants and employee stock purchase programs. The repurchase program does not obligate the Company to acquire any specific number of shares.

Note 6 Commitments and Contingencies**Accrued Warranty and Indemnification**

The following table presents changes in the Company's accrued warranties and related costs for the three- and nine-month periods ended June 30, 2012 and June 25, 2011 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | June 30, 2012 | June 25, 2011 | June 30, 2012 | June 25, 2011 |
| Beginning accrued warranty and related costs | \$ 1,678 | \$ 1,103 | \$ 1,240 | \$ 761 |
| Cost of warranty claims | (436) | (288) | (1,301) | (790) |
| Accruals for product warranty | 323 | 375 | 1,626 | 1,219 |
| Ending accrued warranty and related costs | \$ 1,565 | \$ 1,190 | \$ 1,565 | \$ 1,190 |

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. However, the Company has not been required to make any significant payments resulting from such an infringement claim asserted against it or an indemnified third-party and, in the opinion of management, does not have a potential liability related to unresolved infringement claims subject to indemnification that would materially adversely affect its financial condition or operating results. Therefore, the Company did not record a liability for infringement costs as of either June 30, 2012 or September 24, 2011.

The Company has entered into indemnification agreements with its directors and executive officers. Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors and officers liability insurance coverage to reduce its exposure to such obligations, and payments made under these agreements historically have not been material.

Concentrations in the Available Sources of Supply of Materials and Product

Although most components essential to the Company's business are generally available from multiple sources, a number of components are currently obtained from single or limited sources, which subjects the Company to significant supply and pricing risks. Many components that are available from multiple sources are at times subject to industry-wide shortages and significant commodity pricing fluctuations. In addition, the Company has entered into various agreements for the supply of components; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all. Therefore, the Company remains subject to significant risks of supply shortages and price increases that can materially adversely affect its financial condition and operating results.

The Company and other participants in the mobile communication and media device and personal computer industries also compete for various components with other industries that have experienced increased demand for their products. The Company also uses some custom components that are not common to the rest of these industries, and new products introduced by the Company often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. If the Company's supply of components for a new or existing product were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Company, the Company's financial condition and operating results could be materially adversely affected. The Company's business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers concentrated on the production of common components instead of components customized to meet the Company's requirements.

Substantially all of the Company's hardware products are manufactured by outsourcing partners that are primarily located in Asia. A significant concentration of this manufacturing is currently performed by a small number of outsourcing partners, often in single locations. Certain of these outsourcing partners are the sole-sourced suppliers of components and manufacturers for many of the Company's products. Although the Company works closely with its outsourcing partners on manufacturing schedules, the Company's operating results could be adversely affected if its outsourcing partners were unable to meet their production commitments. The Company's purchase commitments typically cover its requirements for periods up to 150 days.

Long-Term Supply Agreements

The Company has entered into long-term agreements to secure the supply of certain inventory components. Under certain of these agreements, which expire between 2012 and 2022, the Company has made prepayments for the future purchase of inventory components and has agreed to acquire capital equipment to use in the manufacturing of such components.

As of June 30, 2012, the Company had a total of \$4.4 billion of inventory component prepayments outstanding, of which \$1.3 billion is classified as other current assets and \$3.1 billion is classified as other assets in the Condensed Consolidated Balance Sheets. The Company had a total of \$2.3 billion of inventory component prepayments outstanding as of September 24, 2011. The Company's outstanding prepayments will be applied to certain inventory component purchases made during the term of each respective agreement. During the three- and nine-month periods ended June 30, 2012, the Company utilized \$41 million and \$634 million of inventory component prepayments, respectively.

Additionally, as of June 30, 2012, the Company had outstanding off-balance sheet commitments under certain long-term supply agreements to make inventory component prepayments and to acquire capital equipment to use in the manufacturing of such components of \$302 million.

Other Off-Balance Sheet Commitments

The Company leases various equipment and facilities, including retail space, under noncancelable operating lease arrangements. The Company does not currently utilize any other off-balance sheet financing arrangements. The major facility leases are typically for terms not exceeding 10 years and generally provide renewal options for terms not exceeding five additional years. Leases for retail space are for terms ranging from five to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. As of June 30, 2012, the Company's total future minimum lease payments under noncancelable operating leases were \$4.1 billion, of which \$3.0 billion related to leases for retail space.

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company's products and to perform final assembly and testing of finished products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. As of June 30, 2012, the Company had outstanding off-balance sheet third-party manufacturing commitments and component purchase commitments of \$13.6 billion.

In addition to the off-balance sheet commitments mentioned above, the Company had outstanding obligations of \$4.5 billion as of June 30, 2012, which were comprised mainly of commitments to acquire capital assets, including product tooling and manufacturing process equipment, and commitments related to advertising, research and development, Internet and telecommunications services and other obligations.

Contingencies

The Company is subject to various legal proceedings and claims that have arisen in the ordinary course of business and have not been fully adjudicated, certain of which are discussed in Part II, Item 1 of this Form 10-Q under the heading **Legal Proceedings** and in Part II, Item 1A of this Form 10-Q under the heading **Risk Factors**. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies. However, the outcome of litigation is inherently uncertain. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected.

Note 7 Segment Information and Geographic Data

The Company reports segment information based on the management approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company's reportable segments.

The Company manages its business primarily on a geographic basis. Accordingly, the Company determined its reportable operating segments, which are generally based on the nature and location of its customers, to be the Americas, Europe, Japan, Asia-Pacific and Retail. The results of the Americas, Europe, Japan and Asia-Pacific segments do not include results of the Retail segment. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as the Middle East and Africa. The Asia-Pacific segment includes Australia and Asian countries, other than Japan. The Retail segment operates Apple retail stores in 12 countries, including the U.S. Each reportable operating segment provides similar hardware and software products and similar services. The accounting policies of the various segments are the same as those described in Note 1, **Summary of Significant Accounting Policies** of this Form 10-Q and in the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company's 2011 Form 10-K.

The Company evaluates the performance of its operating segments based on net sales and operating income. Net sales for geographic segments are generally based on the location of customers, while Retail segment net sales are based on sales from the Company's retail stores. Operating income for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. Advertising expenses are generally included in the geographic segment in which the expenditures are incurred. Operating income for each segment excludes other income and expense and certain expenses managed outside the operating segments. Costs excluded from segment operating income include various corporate expenses such as manufacturing costs and variances not included in standard costs, research and development, corporate marketing expenses, share-based compensation expense, income taxes, various nonrecurring charges, and other separately managed general and administrative costs. Prior to 2012, the Company allocated to corporate expenses certain costs associated with its high-profile retail stores that have been designed and built to promote brand awareness and serve as vehicles for corporate sales and marketing activities. Beginning in 2012, the Company no longer allocates these costs to corporate expenses and reclassified \$26 million and \$75 million of such costs from corporate to Retail segment expenses for the three- and nine-month periods ended June 25, 2011, respectively. The Company does not include intercompany transfers between segments for management reporting purposes. Segment assets exclude corporate assets, such as cash and cash equivalents, short-term and long-term marketable securities, other long-term investments, manufacturing and corporate facilities, product tooling and manufacturing process equipment, miscellaneous corporate infrastructure, goodwill and other acquired intangible assets. Except for the Retail segment, capital asset purchases for long-lived assets are not reported to management by segment.

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The following table shows information by operating segment for the three- and nine-month periods ended June 30, 2012 and June 25, 2011 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|----------------------|--------------------|------------------|-------------------|------------------|
| | June 30, 2012 | June 25, 2011 | June 30, 2012 | June 25, 2011 |
| Americas: | | | | |
| Net sales | \$ 12,806 | \$ 10,126 | \$ 43,702 | \$ 28,667 |
| Operating income | \$ 5,202 | \$ 3,596 | \$ 18,069 | \$ 10,250 |
| Europe: | | | | |
| Net sales | \$ 8,237 | \$ 7,098 | \$ 28,300 | \$ 20,381 |
| Operating income | \$ 3,261 | \$ 3,107 | \$ 11,816 | \$ 8,414 |
| Japan: | | | | |
| Net sales | \$ 2,009 | \$ 1,510 | \$ 8,204 | \$ 4,326 |
| Operating income | \$ 1,073 | \$ 735 | \$ 4,597 | \$ 1,996 |
| Asia-Pacific: | | | | |
| Net sales | \$ 7,887 | \$ 6,332 | \$ 25,737 | \$ 16,062 |
| Operating income | \$ 3,374 | \$ 2,782 | \$ 11,452 | \$ 6,869 |
| Retail: | | | | |
| Net sales | \$ 4,084 | \$ 3,505 | \$ 14,599 | \$ 10,543 |
| Operating income | \$ 868 | \$ 802 | \$ 3,871 | \$ 2,590 |

A reconciliation of the Company's segment operating income to the condensed consolidated financial statements for the three- and nine-month periods ended June 30, 2012 and June 25, 2011 is as follows (in millions):

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------------|--------------------|------------------|-------------------|------------------|
| | June 30, 2012 | June 25, 2011 | June 30, 2012 | June 25, 2011 |
| Segment operating income | \$ 13,778 | \$ 11,022 | \$ 49,805 | \$ 30,119 |
| Share-based compensation expense | (448) | (284) | (1,292) | (870) |
| Other corporate expenses, net (a) | (1,757) | (1,359) | (4,216) | (4,169) |
| Total operating income | \$ 11,573 | \$ 9,379 | \$ 44,297 | \$ 25,080 |

- (a) Other corporate expenses include research and development, corporate marketing expenses, manufacturing costs and variances not included in standard costs, and other separately managed general and administrative expenses.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Form 10-Q contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements can be identified by words such as anticipates, expects, believes, plans, will, would, could, and similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A, Risk Factors of this Form 10-Q, which are incorporated herein by reference. The following discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended September 24, 2011 (the 2011 Form 10-K) filed with the U.S. Securities and Exchange Commission (the SEC) and the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q. All information presented herein is based on the Company's fiscal calendar. Unless otherwise stated, references in this report to particular years or quarters refer to the Company's fiscal years ended in September and the associated quarters of those fiscal years. Each of the terms the Company and Apple as used herein refers collectively to Apple Inc. and its wholly-owned subsidiaries, unless otherwise stated. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Available Information

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), are filed with the SEC. Such reports and other information filed by the Company with the SEC are available on the Company's website at <http://www.apple.com/investor> when such reports are available on the SEC's website. The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>. The contents of these websites are not incorporated into this filing. Further, the Company's references to the URLs for these websites are intended to be inactive textual references only.

Executive Overview

The Company designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. The Company's products and services include iPhone®, iPad®, Mac®, iPod®, Apple TV®, a portfolio of consumer and professional software applications, the iOS and OS X® operating systems, iCloud®, and a variety of accessory, service and support offerings. The Company also sells and delivers digital content and applications through the iTunes Store®, App Store®, iBookstore®, and Mac App Store. The Company sells its products worldwide through its retail stores, online stores, and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers, and value-added resellers. In addition, the Company sells a variety of third-party iPhone, iPad, Mac and iPod compatible products, including application software and various accessories through its online and retail stores. The Company sells to consumers, small and mid-sized businesses, and education, enterprise and government customers.

The Company is committed to bringing the best user experience to its customers through its innovative hardware, software, peripherals, and services. The Company's business strategy leverages its unique ability to design and develop its own operating systems, hardware, application software, and services to provide its customers new products and solutions with superior ease-of-use, seamless integration, and innovative design. As part of its strategy, the Company continues to expand its platform for the discovery and delivery of third-party digital content and applications through the iTunes Store. As part of the iTunes Store, the Company's App Store and iBookstore allow customers to discover and download applications and books through either a Mac or Windows-based computer or through iOS devices, namely iPhone, iPad and iPod touch. The Company's Mac App Store allows customers to easily discover, download and install Mac applications. The Company also supports a community for the development of third-party software and hardware products and digital content that complement the Company's offerings. The Company's strategy also includes expanding its distribution network to effectively reach more customers and provide them with a high-quality sales and post-sales support experience.

The Company participates in several highly competitive markets, including mobile communications and media devices with its iPhone, iPad and iPod product families; personal computers with its Mac computers; and distribution of third-party digital content and applications through the iTunes Store, App Store, iBookstore, and Mac App Store. While the Company is widely recognized as a leading innovator in the markets where it competes, these markets are highly competitive and subject to aggressive pricing. To remain competitive, the Company believes that continual investment in research and development and marketing and advertising is critical to the development and sale of innovative products and technologies. The Company's research and development spending is focused on investing in new hardware and software products, and in further developing its existing products, including iPhone, iPad, Mac, and iPod hardware; iOS and OS X operating systems; and a variety of application software and online services.

The Company uses a variety of direct and indirect distribution channels, such as its retail stores, online stores, and direct sales force, and third-party cellular network carriers, wholesalers, retailers, and value-added resellers. The Company believes that sales of its innovative and differentiated products are enhanced by knowledgeable salespersons who can convey the value of the hardware and software integration, and demonstrate the unique solutions that are available on its products. The Company further believes providing direct contact with its targeted customers is an effective way to demonstrate the advantages of its products over those of its competitors and providing a high-quality sales and after-sales support experience is critical to attracting new and retaining existing customers. To ensure a high-quality buying experience for its products in which service and education are emphasized, the Company continues to expand and improve its distribution capabilities by expanding the number of its own retail stores worldwide. Additionally, the Company has invested in programs to enhance reseller sales by placing high-quality Apple fixtures, merchandising materials and other resources within selected third-party reseller locations. Through the Apple Premium Reseller Program, certain third-party resellers focus on the Apple platform by providing a high level of integration and support services, and product expertise.

Products

The Company offers a range of mobile communication and media devices, personal computing products, and portable digital music players, as well as a variety of related software, services, peripherals, networking solutions and various third-party hardware and software products. In addition, the Company offers its own software products, including iOS, the Company's proprietary mobile operating system; OS X, the Company's proprietary operating system software for its Mac computers; server software; and application software for consumer, education, and business customers.

In March 2012, the Company introduced the new iPad, announced lower pricing on the iPad 2, and released an updated version of Apple TV. The Company also introduced iPhoto[®] for iOS, and provided updates to iMovie[®], GarageBand[®] and iWork[®] for iOS.

In June 2012, the Company introduced a new MacBook[®] Pro with Retina Display. The Company also announced iOS 6, which is expected to be available in the fall of 2012, and Mountain Lion, the ninth major release of OS X, which became available in July 2012.

A detailed discussion of the Company's other products may be found in Part I, Item 1, *Business*, of the Company's 2011 Form 10-K.

Quarterly Dividends and Stock Repurchase Program

In March 2012, the Company announced its plans to initiate a quarterly dividend of \$2.65 per share of common stock beginning in the fourth quarter of 2012, subject to declaration by its Board of Directors. The Company further announced that the Board of Directors has authorized a program to repurchase up to \$10 billion of the Company's common stock, commencing in 2013. On July 24, 2012, the Board of Directors declared a dividend of \$2.65 per share to shareholders of record as of the close of business on August 13, 2012, payable on August 16, 2012.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles (GAAP) and the Company s discussion and analysis of its financial condition and operating results require the Company s management to make judgments, assumptions, and estimates that affect the amounts reported in its condensed consolidated financial statements and accompanying notes. Note 1, Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q and in the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company s 2011 Form 10-K describes the significant accounting policies and methods used in the preparation of the Company s condensed consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates and such differences may be material.

Management believes the Company s critical accounting policies and estimates are those related to revenue recognition, valuation and impairment of marketable securities, inventory valuation and inventory purchase commitments, warranty costs, income taxes, and legal and other contingencies. Management considers these policies critical because they are both important to the portrayal of the Company s financial condition and operating results, and they require management to make judgments and estimates about inherently uncertain matters. The Company s senior management has reviewed these critical accounting policies and related disclosures with the Audit and Finance Committee of the Company s Board of Directors.

Revenue Recognition

Net sales consist primarily of revenue from the sale of hardware, software, digital content and applications, peripherals, and service and support contracts. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred. For most of the Company s product sales, these criteria are met at the time the product is shipped. For online sales to individuals, for some sales to education customers in the U.S., and for certain other sales, the Company defers recognition of revenue until the customer receives the product because the Company retains a portion of the risk of loss on these sales during transit. The Company recognizes revenue from the sale of hardware products, software bundled with hardware that is essential to the functionality of the hardware, and third-party digital content sold on the iTunes Store in accordance with general revenue recognition accounting guidance. The Company recognizes revenue in accordance with industry specific software accounting guidance for the following types of sales transactions: (i) standalone sales of software products, (ii) sales of software upgrades and (iii) sales of software bundled with hardware not essential to the functionality of the hardware.

For multi-element arrangements that include hardware products containing software essential to the hardware product s functionality, undelivered software elements that relate to the hardware product s essential software, and undelivered non-software services, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE) and (iii) best estimate of the selling price (ESP). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company s best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

For sales of iPhone, iPad, and Apple TV, for sales of iPod touch beginning in June 2010, and for sales of Mac beginning in June 2011, the Company has indicated it may from time-to-time provide future unspecified software upgrades and features free of charge to customers. In June 2011, the Company announced it would begin providing various non-software services to owners of qualifying versions of iOS devices and Mac. Because the Company has neither VSOE nor TPE for these unspecified software upgrade rights or the non-software services, revenue is allocated to these rights and services based on the Company s ESPs. Amounts allocated to the unspecified software upgrade rights and non-software services are deferred and recognized on a straight-line basis over the estimated lives of each of these devices, which range from 24 to 48 months. The Company s process for determining ESPs involves management s judgment. The Company s process considers multiple factors that may vary over time depending upon the unique facts and circumstances related to each deliverable. If the facts and circumstances underlying the factors considered change, including the estimated or actual costs incurred to provide non-software services or the estimated lives of the related devices, or should future facts and circumstances lead the Company to consider additional factors, the Company s ESP for software upgrades and non-software services related to future sales of these devices could change. If the estimated life of one or more of the devices should change, the future rate of amortization of the revenue allocated to the software upgrade rights would also change.

The Company records reductions to revenue for estimated commitments related to price protection and for customer incentive programs, including reseller and end-user rebates, and other sales programs and volume-based incentives. For transactions involving price protection, the Company recognizes revenue net of the estimated amount to be refunded, provided the refund amount can be reasonably and reliably estimated and the other conditions for revenue recognition have been met. The Company's policy requires that, if refunds cannot be reliably estimated, revenue is not recognized until reliable estimates can be made or the price protection lapses. For customer incentive programs, the estimated cost of these programs is recognized at the later of the date at which the Company has sold the product or the date at which the program is offered. The Company also records reductions to revenue for expected future product returns based on the Company's historical experience. Future market conditions and product transitions may require the Company to increase customer incentive programs and incur incremental price protection obligations that could result in additional reductions to revenue at the time such programs are offered. Additionally, certain customer incentive programs require management to estimate the number of customers who will actually redeem the incentive. Management's estimates are based on historical experience and the specific terms and conditions of particular incentive programs. If a greater than estimated proportion of customers redeem such incentives, the Company would be required to record additional reductions to revenue, which would have an adverse impact on the Company's results of operations.

Valuation and Impairment of Marketable Securities

The Company's investments in available-for-sale securities are reported at fair value. Unrealized gains and losses related to changes in the fair value of securities are recognized in accumulated other comprehensive income, net of tax, in the Company's Condensed Consolidated Balance Sheets. Changes in the fair value of available-for-sale securities impact the Company's net income only when such securities are sold or an other-than-temporary impairment is recognized. Realized gains and losses on the sale of securities are determined by specific identification of each security's cost basis. The Company regularly reviews its investment portfolio to determine if any security is other-than-temporarily impaired, which would require the Company to record an impairment charge in the period any such determination is made. In making this judgment, the Company evaluates, among other things, the duration and extent to which the fair value of a security is less than its cost, the financial condition of the issuer and any changes thereto, and the Company's intent to sell, or whether it is more likely than not it will be required to sell, the security before recovery of its amortized cost basis. The Company's assessment on whether a security is other-than-temporarily impaired could change in the future due to new developments or changes in assumptions related to any particular security.

Inventory Valuation and Inventory Purchase Commitments

The Company must order components for its products and build inventory in advance of product shipments. The Company records a write-down for inventories of components and products, including third-party products held for resale, which have become obsolete or are in excess of anticipated demand or net realizable value. The Company performs a detailed review of inventory each fiscal quarter that considers multiple factors including demand forecasts, product life cycle status, product development plans, current sales levels, and component cost trends. The industries in which the Company competes are subject to a rapid and unpredictable pace of product and component obsolescence and demand changes. If future demand or market conditions for the Company's products are less favorable than forecasted or if unforeseen technological changes negatively impact the utility of component inventory, the Company may be required to record additional write-downs, which would adversely affect its results of operations in the period when the write-downs were recorded.

The Company records accruals for estimated cancellation fees related to component orders that have been cancelled or are expected to be cancelled. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. These commitments typically cover the Company's requirements for periods up to 150 days. If there is an abrupt and substantial decline in demand for one or more of the Company's products or an unanticipated change in technological requirements for any of the Company's products, the Company may be required to record additional accruals for cancellation fees that would adversely affect its results of operations in the period when the cancellation fees are identified and recorded.

Warranty Costs

The Company provides for the estimated cost of hardware and software warranties at the time the related revenue is recognized based on historical and projected warranty claim rates, historical and projected cost-per-claim, and knowledge of specific product failures that are outside of the Company's typical experience. Each quarter, the Company reevaluates its estimates to assess the adequacy of its recorded warranty liabilities considering the size of the installed base of products subject to warranty protection and adjusts the amounts as necessary. If actual product failure rates or repair costs differ from estimates, revisions to the estimated warranty liabilities would be required and could materially affect the Company's results of operations.

Income Taxes

The Company records a tax provision for the anticipated tax consequences of the reported results of operations. The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with future reversals of existing taxable temporary differences, will be sufficient to fully recover the deferred tax assets. In the event that the Company determines all or part of the net deferred tax assets are not realizable in the future, the Company will make an adjustment to the valuation allowance that would be charged to earnings in the period such determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on the Company's financial condition and operating results.

Legal and Other Contingencies

As discussed in Part II, Item 1 of this Form 10-Q under the heading "Legal Proceedings" and in Note 6, "Commitments and Contingencies" in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q, the Company is subject to various legal proceedings and claims that arise in the ordinary course of business. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for legal and other contingencies. However, the outcome of legal proceedings and claims brought against the Company are subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected.

Fiscal Period

The Company's fiscal year is the 52 or 53-week period that ends on the last Saturday of September. The Company's fiscal year 2012 will include 53 weeks and will end on September 29, 2012. A 14th week has been included in the first quarter of 2012, as is done approximately every six years to realign the Company's fiscal quarters more closely to calendar quarters. The first quarter of 2011 spanned 13 weeks. Inclusion of the 14th week in the first quarter of 2012 increased the Company's overall net sales and operating expenses for the nine months ended June 30, 2012.

Net Sales

The following table summarizes net sales by operating segment and net sales and unit sales by product during the three- and nine-month periods ended June 30, 2012 and June 25, 2011 (dollars in millions and units in thousands):

| | Three Months Ended | | | Nine Months Ended | | |
|---|--------------------|------------------|-------------|-------------------|------------------|------------|
| | June 30, 2012 | June 25, 2011 | Change | June 30, 2012 | June 25, 2011 | Change |
| Net Sales by Operating Segment: | | | | | | |
| Americas net sales | \$ 12,806 | \$ 10,126 | 26% | \$ 43,702 | \$ 28,667 | 52% |
| Europe net sales | 8,237 | 7,098 | 16% | 28,300 | 20,381 | 39% |
| Japan net sales | 2,009 | 1,510 | 33% | 8,204 | 4,326 | 90% |
| Asia-Pacific net sales | 7,887 | 6,332 | 25% | 25,737 | 16,062 | 60% |
| Retail net sales | 4,084 | 3,505 | 17% | 14,599 | 10,543 | 38% |
| Total net sales | \$ 35,023 | \$ 28,571 | 23% | \$ 120,542 | \$ 79,979 | 51% |
| Net Sales by Product: | | | | | | |
| Mac Desktops (a)(i) | \$ 1,287 | \$ 1,580 | (19)% | \$ 4,786 | \$ 4,752 | 1% |
| Mac Portables (b)(i) | 3,646 | 3,525 | 3% | 11,818 | 10,759 | 10% |
| Total Mac net sales | 4,933 | 5,105 | (3)% | 16,604 | 15,511 | 7% |
| iPod (c)(i) | 1,060 | 1,325 | (20)% | 4,795 | 6,350 | (24)% |
| Other music related products and services (d) | 2,060 | 1,571 | 31% | 6,238 | 4,636 | 35% |
| iPhone and related products and services (e)(i) | 16,245 | 13,311 | 22% | 63,352 | 36,077 | 76% |
| iPad and related products and services (f)(i) | 9,171 | 6,046 | 52% | 24,914 | 13,490 | 85% |
| Peripherals and other hardware (g) | 663 | 517 | 28% | 2,072 | 1,690 | 23% |
| Software, service and other sales (h) | 891 | 696 | 28% | 2,567 | 2,225 | 15% |
| Total net sales | \$ 35,023 | \$ 28,571 | 23% | \$ 120,542 | \$ 79,979 | 51% |
| Unit Sales by Product: | | | | | | |
| Mac Desktops | 1,010 | 1,155 | (13)% | 3,688 | 3,391 | 9% |
| Mac Portables | 3,010 | 2,792 | 8% | 9,547 | 8,450 | 13% |
| Total Mac unit sales | 4,020 | 3,947 | 2% | 13,235 | 11,841 | 12% |
| iPod unit sales | 6,751 | 7,535 | (10)% | 29,821 | 35,998 | (17)% |
| iPhone unit sales | 26,028 | 20,338 | 28% | 98,136 | 55,220 | 78% |
| iPad unit sales | 17,042 | 9,246 | 84% | 44,274 | 21,271 | 108% |

(a) Includes revenue from iMac, Mac mini and Mac Pro sales.

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- (b) Includes revenue from MacBook, MacBook Air and MacBook Pro sales.
- (c) Includes revenue from iPod sales.
- (d) Includes revenue from sales from the iTunes Store, App Store, and iBookstore in addition to sales of iPod services and Apple-branded and third-party iPod accessories.
- (e) Includes revenue from sales of iPhone, iPhone services, and Apple-branded and third-party iPhone accessories.
- (f) Includes revenue from sales of iPad, iPad services, and Apple-branded and third-party iPad accessories.
- (g) Includes revenue from sales of displays, networking products, and other hardware.
- (h) Includes revenue from sales of Apple-branded and third-party Mac software, and services.
- (i) Includes amortization of related revenue deferred for non-software services and embedded software upgrade rights.

Net sales during the third quarter and first nine months of 2012 increased \$6.5 billion or 23%, and \$40.6 billion or 51%, respectively, compared to the same periods in 2011. Several factors contributed positively to this increase, including the addition of the 14th week in the first quarter of 2012, as well as the following:

Net sales of iPhone and related products and services were \$16.2 billion and \$63.4 billion in the third quarter and first nine months of 2012, respectively, representing increases of 22% and 76%, compared to the same periods in 2011, respectively. iPhone unit sales totaled 26.0 million and 98.1 million during the third quarter and first nine months of 2012, respectively, representing increases of 28% and 78%, compared to the same periods in 2011, respectively. The year-over-year growth in iPhone unit sales during the third quarter of 2012 reflects increased demand for iPhone in all of the Company's operating segments as a result of the launch of iPhone 4S earlier in the year, ongoing demand for iPhone 4 and 3GS, and expanded distribution with new carriers and resellers. Net sales of iPhone and related products and services were 46% and 47% of the Company's total net sales for the third quarters of 2012 and 2011, respectively, and were 53% and 45% of the Company's total net sales during the first nine months of 2012 and 2011, respectively.

Net sales of iPad and related products and services were \$9.2 billion and \$24.9 billion in the third quarter and first nine months of 2012, respectively, representing increases of 52% and 85% compared to the same periods in 2011, respectively. iPad unit sales were 17.0 million and 44.3 million during the third quarter and first nine months of 2012, respectively, representing increases of 84% and 108%, compared to the same periods in 2011, respectively. The year-over-year increase in iPad net sales and unit sales during the third quarter of 2012 was driven by strong iPad demand in all of the Company's operating segments, the launch of the new iPad in March 2012, and expanded distribution with new resellers. The year-over-year growth rate of iPad unit sales was higher than the growth rate of iPad net sales during the third quarter of 2012 due to a reduction of average selling prices as a result of a shift in product mix toward lower-priced iPads, price reductions for iPad 2 and an increase in indirect sales due to expanded distribution through third-party resellers. Net sales of iPad and related products and services were 26% and 21% of the Company's total net sales for the third quarters of 2012 and 2011, respectively, and were 21% and 17% of the Company's total net sales during the first nine months of 2012 and 2011, respectively.

Mac net sales were \$4.9 billion and \$16.6 billion in the third quarter and first nine months of 2012, respectively, representing a decrease of 3% and an increase of 7% in the third quarter and first nine months of 2012, respectively, compared to the same periods in 2011. Mac unit sales increased 73,000 or 2% and 1.4 million or 12% in the third quarter and first nine months of 2012, respectively, compared to the same periods in 2011. The 3% year-over-year decline in Mac net sales during the third quarter of 2012 was the result of lower average selling prices only partially offset by the 2% increase in Mac unit sales. The year-over-year increase in Mac unit sales during the third quarter of 2012 was lower than the rates of increase experienced in recent quarters due to strong sales in the prior year resulting from the launches of a new MacBook Pro late in the second quarter of 2011 and a new iMac early in the third quarter of 2011. In contrast, the Company has not transitioned its Mac desktop products in 2012 and did not introduce new or updated Mac portable products until late in the third quarter of 2012. The Company believes the Mac net sales during the third quarter of 2012 were also affected by the general weakness in the market for personal computers. Mac net sales were 14% and 18% of the Company's total net sales for the third quarters of 2012 and 2011, respectively, and were 14% and 19% of the Company's total net sales during the first nine months of 2012 and 2011, respectively.

Net sales of other music related products and services were \$2.1 billion and \$6.2 billion in the third quarter and first nine months of 2012, respectively, representing increases of 31% and 35% compared to the same periods in 2011, respectively. These increases were due primarily to growth of the iTunes Store which generated total net sales of \$1.8 billion and \$5.5 billion for the third quarter and the first nine months of 2012, respectively, compared to net sales of \$1.4 billion and \$3.9 billion during the same periods in 2011, respectively. The strong results of the iTunes Store reflect growth of the iTunes App Store, continued growth in the number of users of the Company's products, and the expansion of third-party audio, video and book content available for sale or rent via the iTunes Store. Net sales of other music related products and services were 6% and 5% of the Company's total net sales for the third quarter of 2012 and 2011, respectively, and were 5% and 6% of the Company's total net sales during the first nine months of 2012 and 2011, respectively.

Partially offsetting the positive factors contributing to the overall increase in net sales was a decrease in iPod net sales experienced across all operating segments. iPod net sales decreased by \$265 million and \$1.6 billion during the third quarter and first nine months of 2012, respectively, representing decreases of 20% and 24% compared to the same periods in 2011, respectively. Similarly, iPod unit sales decreased by 10% and 17% in the third quarter of 2012 and first nine months of 2012, respectively, compared to the same periods in 2011, respectively. Declines in net sales and unit sales of iPod reflect the general contraction of the overall market for MP3 players. Net sales of iPod were 3% and 5% of the Company's total net sales for the third quarters of 2012 and 2011, respectively, and were 4% and 8% of the Company's total net sales during the first nine months of 2012 and 2011, respectively.

Segment Operating Performance

The Company manages its business primarily on a geographic basis. The Company's reportable operating segments consist of the Americas, Europe, Japan, Asia-Pacific and Retail. The results of the Americas, Europe, Japan and Asia-Pacific segments do not include the results of the Retail segment. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as the Middle East and Africa. The Asia-Pacific segment includes Australia and Asian countries, other than Japan. The Retail segment operates Apple retail stores in 12 countries. Each reportable operating segment provides similar hardware and software products and similar services. Further information regarding the Company's operating segments may be found in Note 7, Segment Information and Geographic Data in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

Americas

Net sales in the Americas segment increased \$2.7 billion or 26% during the third quarter of 2012 compared to the third quarter of 2011, and increased \$15.0 billion or 52% during the first nine months of 2012 compared to the same period in 2011. The growth in net sales during the third quarter and first nine months of 2012 was primarily driven by increased demand for iPhone following the successful launch of iPhone 4S in the first quarter of 2012, strong demand for the new iPad and iPad 2, and higher sales from the iTunes Store. Further, the Company experienced higher sales of both iPad and Mac in the U.S. education market. The Americas segment accounted for 37% and 36% of the Company's total net sales in the third quarters of 2012 and 2011, respectively, and 36% of the Company's total net sales for the first nine months of both 2012 and 2011, respectively.

Europe

Net sales in the Europe segment increased \$1.1 billion or 16% during the third quarter of 2012 compared to the third quarter of 2011, and increased \$7.9 billion or 39% during the first nine months of 2012 compared to the same period in 2011. The growth in net sales during the third quarter and first nine months of 2012 was primarily driven by strong demand for the new iPad and iPad 2 and higher sales from the iTunes Store. The year-over-year growth in net sales during the first nine months of 2012 also benefited from increased demand for iPhone. Lower year-over-year growth of net sales in the Europe segment during the third quarter of 2012 compared to the Company's other geographic segments reflects growth in iPhone unit sales that was well below the growth rates experienced by the Company's other operating segments, partially offset by strong growth in iPad unit sales. Net sales in the Europe segment were also negatively impacted by the region's uncertain economic conditions and the strength in the U.S. dollar relative to several European currencies, including the euro. The Europe segment accounted for 23% and 25% of the Company's total net sales in the third quarters of 2012 and 2011, respectively, and 24% and 26% of total net sales for the first nine months of 2012 and 2011, respectively.

Japan

Net sales in the Japan segment increased \$499 million or 33% during the third quarter of 2012 compared to the third quarter of 2011, and increased \$3.9 billion or 90% during the first nine months of 2012 compared to the same period in 2011. The growth in net sales during the third quarter and first nine months of 2012 was primarily driven by increased demand for iPhone following the successful launch of iPhone 4S in the first quarter of 2012, expanded distribution with a new iPhone carrier, strong demand for the new iPad and iPad 2, and higher sales from the iTunes Store. The Japan segment accounted for 6% and 5% of the Company's total net sales in the third quarters of 2012 and 2011, respectively, and 7% and 5% of total net sales in the first nine months of 2012 and 2011, respectively.

Asia-Pacific

Net sales in the Asia-Pacific segment increased \$1.6 billion or 25% during the third quarter of 2012 compared to the third quarter of 2011, and increased \$9.7 billion or 60% during the first nine months of 2012 compared to the same period in 2011. The growth in net sales during the third quarter and first nine months of 2012 was mainly due to increased demand for iPhone, the successful launch of iPhone 4S in mainland China during the second quarter of 2012, and strong demand for the new iPad and iPad 2, partially offset by lower Mac net sales during the third quarter of 2012 compared to the third quarter of 2011. The Company did not begin selling the new iPad or the new Mac portable products in mainland China until early in the fourth quarter of 2012. The Asia-Pacific segment accounted for 22% of the Company's total net sales in the third quarters of both 2012 and 2011, and 21% and 20% of total net sales in the first nine months of 2012 and 2011, respectively.

Retail

Retail net sales increased \$579 million or 17% during the third quarter of 2012 compared to the third quarter of 2011, and increased \$4.1 billion or 38% during the first nine months of 2012 compared to the same period in 2011. The growth in net sales during the third quarter and first nine months of 2012 was driven primarily by increased demand for iPhone following the successful launch of iPhone 4S in the first quarter of 2012, strong demand for the new iPad and iPad 2, and higher Mac net sales. The Retail segment accounted for 12% of total net sales in the third quarters of both 2012 and 2011, and 12% and 13% of total net sales for the first nine months of 2012 and 2011, respectively.

The Company opened nine new retail stores during the third quarter of 2012, ending the quarter with 372 stores open compared to 327 stores at the end of the third quarter of 2011. With an average of 367 stores and 325 stores open during the third quarters of 2012 and 2011, respectively, average revenue per store increased 3% to \$11.1 million in the third quarter of 2012 compared to the third quarter of 2011. Average revenue per store increased 24% to \$40.3 million for the first nine months of 2012 compared to the same period in 2011.

The Retail segment reported operating income of \$868 million during the third quarter of 2012 compared to operating income of \$802 million during the third quarter of 2011, and reported operating income of \$3.9 billion during the first nine months of 2012 compared to \$2.6 billion during the first nine months of 2011. The year-over-year increase in Retail segment operating income was primarily attributable to higher overall net sales.

Expansion of the Retail segment has required and will continue to require a substantial investment in fixed assets and related infrastructure, operating lease commitments, personnel, and other operating expenses. Capital asset purchases associated with the Retail segment since inception totaled \$3.3 billion through the third quarter of 2012. As of June 30, 2012, the Retail segment had approximately 41,000 full-time equivalent employees and had outstanding lease commitments associated with retail space and related facilities of \$3.0 billion. The Company would incur substantial costs if it were to close multiple retail stores and such costs could adversely affect the Company's financial condition and operating results.

Gross Margin

Gross margin for the three- and nine-month periods ended June 30, 2012 and June 25, 2011 was as follows (dollars in millions):

| | Three Months Ended | | Nine Months Ended | |
|---------------------|--------------------|------------------|-------------------|------------------|
| | June 30, 2012 | June 25, 2011 | June 30, 2012 | June 25, 2011 |
| Net sales | \$ 35,023 | \$ 28,571 | \$ 120,542 | \$ 79,979 |
| Cost of sales | 20,029 | 16,649 | 66,281 | 47,541 |
| Gross margin | \$ 14,994 | \$ 11,922 | \$ 54,261 | \$ 32,438 |

Gross margin percentage 42.8% 41.7% 45.0% 40.6%

The gross margin percentage in the third quarter of 2012 was 42.8% compared to 41.7% in the third quarter of 2011. The year-over-year increase in gross margin during the third quarter was largely driven by lower commodity and other product costs and leverage of fixed costs on higher net sales, partially offset by a shift in sales mix towards products with lower gross margins, particularly iPad, and a stronger U.S. dollar. The gross margin percentage for the first nine months of 2012 was 45.0% compared to 40.6% in the first nine months of 2011. The increase in gross margin for the first nine months of 2012 was largely driven by lower commodity and other product costs, leverage of fixed costs on higher net sales and a shift in sales mix during the first half of 2012 towards products with higher gross margins, particularly iPhone.

The Company expects to experience decreases in its gross margin percentage in future periods, as compared to levels achieved during the first nine months of 2012, largely due to a higher mix of new and innovative products with flat or reduced pricing that have higher cost structures and deliver greater value to customers, a stronger U.S. dollar, and potential future component cost and other cost increases.

The foregoing statements regarding the Company's expected gross margin percentage in future periods are forward-looking and could differ from actual results because of several factors including, but not limited to those set forth below in Part II, Item 1A, "Risk Factors" of this Form 10-Q and those described in this paragraph. In general, gross margins and margins on individual products will remain under downward pressure due to a variety of factors, including continued industry wide global product pricing pressures, increased competition, compressed product life cycles, product transitions and potential increases in the cost of components, as well as potential increases in the costs of outside manufacturing services and a potential shift in the Company's sales mix towards products with lower gross margins. In response to competitive pressures, the Company expects it will continue to take product pricing actions, which would adversely affect gross margins. Gross margins could also be affected by the Company's ability to manage product quality and warranty costs effectively and to stimulate demand for certain of its products. Due to the Company's significant international operations, financial results can be significantly affected in the short-term by fluctuations in exchange rates.

Operating Expenses

Operating expenses for the three- and nine-month periods ended June 30, 2012 and June 25, 2011 were as follows (dollars in millions):

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|------------------|-------------------|------------------|
| | June 30, 2012 | June 25, 2011 | June 30, 2012 | June 25, 2011 |
| Research and development | \$ 876 | \$ 628 | \$ 2,475 | \$ 1,784 |
| Percentage of net sales | 3% | 2% | 2% | 2% |
| Selling, general and administrative | \$ 2,545 | \$ 1,915 | \$ 7,489 | \$ 5,574 |
| Percentage of net sales | 7% | 7% | 6% | 7% |

Research and Development Expense (R&D)

R&D expense increased \$248 million or 39% to \$876 million during the third quarter of 2012 compared to the same period of 2011 and increased \$691 million or 39% to \$2.5 billion during the first nine months of 2012 compared to the same period in 2011. These increases were due primarily to an increase in headcount and related expenses to support expanded R&D activities.

Although total R&D expense increased 39% during the third quarter and first nine months of 2012 compared to the same periods in 2011, it remained fairly consistent as a percentage of net sales given the 23% and 51% year-over-year growth in the Company's net sales during the third quarter and first nine months of 2012, respectively. The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products that are central to the Company's core business strategy. As such, the Company expects to make further investments in R&D, including increases in related headcount, to remain competitive.

Selling, General and Administrative Expense (SG&A)

SG&A expense increased \$630 million or 33% to \$2.5 billion during third quarter of 2012 compared to the same period of 2011, and increased \$1.9 billion or 34% to \$7.5 billion during the first nine months of 2012 compared to the same period in 2011. These increases were due primarily to the continued expansion of the Company's Retail segment, higher spending on professional services, increases in headcount and related expenses, and increased variable costs associated with the overall growth of the Company's net sales.

Other Income and Expense

Total other income and expense increased \$116 million or 67% to \$288 million during third quarter of 2012 compared to the same period in 2011, and increased \$239 million or 72% to \$573 million during the first nine months of 2012 compared to the same period in 2011. The overall increase in other income and expense during the third quarter of 2012 and the first nine months of 2012 compared to the same period in 2011 was primarily attributable to higher interest and dividend income on the Company's larger cash, cash equivalents and marketable securities balances, partially offset by higher premium expenses on foreign exchange contracts. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 1.06% and 0.76% in the third quarters of 2012 and 2011, respectively, and 1.03% and 0.76% in the first nine months of both 2012 and 2011, respectively.

Provision for Income Taxes

The Company's effective tax rates were approximately 25.6% and 25.3% for the three- and nine-month periods ended June 30, 2012, respectively, compared to approximately 23.5% and 24.1% for the three- and nine-month periods ended June 25, 2011, respectively. The Company's effective rates for all such periods differ from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings for which no U.S. taxes are provided because such earnings are intended to be indefinitely reinvested outside the U.S. The higher effective tax rate during the first nine months of 2012 compared to the same period in 2011 is due primarily to a lower proportion of foreign earnings in the current year.

The Internal Revenue Service (the IRS) has completed its field audit of the Company's federal income tax returns for the years 2004 through 2006 and proposed certain adjustments. The Company has contested certain of these adjustments through the IRS Appeals Office. The IRS is currently examining the years 2007 through 2009. All IRS audit issues for years prior to 2004 have been resolved. In addition, the Company is subject to audits by state, local, and foreign tax authorities. Management believes that adequate provisions have been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

Liquidity and Capital Resources

The following table presents selected financial information and statistics as of June 30, 2012 and September 24, 2011 (in millions):

| | June 30, 2012 | September 24, 2011 |
|--|---------------|--------------------|
| Cash, cash equivalents and marketable securities | \$ 117,221 | \$ 81,570 |
| Accounts receivable, net | \$ 7,657 | \$ 5,369 |
| Inventories | \$ 1,122 | \$ 776 |
| Working capital | \$ 18,883 | \$ 17,018 |

As of June 30, 2012, the Company had \$117.2 billion in cash, cash equivalents and marketable securities, an increase of \$35.7 billion from September 24, 2011. The principal component of this net increase was the cash generated by operating activities of \$41.7 billion, which was partially offset by payments made for acquisition of property, plant and equipment and intangible assets of \$5.9 billion, and payments made in connection with business acquisitions, net of cash acquired, of \$350 million.

The Company's marketable securities investment portfolio is invested primarily in highly-rated securities and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade with the objective of minimizing the potential risk of principal loss. As of June 30, 2012 and September 24, 2011, \$81.4 billion and \$54.3 billion, respectively, of the Company's cash, cash equivalents and marketable securities were held by foreign subsidiaries and are generally invested in U.S. dollar based holdings. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S. The Company believes its existing balances of cash, cash equivalents and marketable securities will be sufficient to satisfy its working capital needs, capital asset purchases, outstanding commitments, common stock repurchases, dividends on its common stock and other liquidity requirements associated with its existing operations over the next 12 months.

Capital Assets

The Company's capital expenditures were \$4.5 billion during the first nine months of 2012 consisting of \$547 million for retail store facilities and \$4.0 billion for other capital expenditures, including product tooling and manufacturing process equipment, and other corporate facilities and infrastructure. The Company's actual cash payments for capital expenditures during the first nine months of 2012 were \$4.8 billion, of which \$507 million related to retail store facilities.

The Company anticipates utilizing approximately \$8.0 billion for capital expenditures during 2012, including approximately \$850 million for retail store facilities and approximately \$7.2 billion for other capital expenditures, including product tooling and manufacturing process equipment, and corporate facilities and infrastructure, including information systems hardware, software and enhancements.

During 2012, the Company expects to open 35 new stores, approximately three quarters of which will be located outside of the U.S.

Dividend and Stock Repurchase Program

In March 2012, the Board of Directors of the Company approved a dividend policy pursuant to which it plans to make, subject to subsequent declaration, quarterly dividends of \$2.65 per share, beginning in the fourth quarter of 2012. Additionally, in March 2012, the Company's Board of Directors authorized a program to repurchase up to \$10 billion of the Company's common stock beginning in 2013. The repurchase program is expected to be executed over a three-year period with the primary objective to neutralize the impact of dilution from future employee equity grants and employee stock purchase programs. The repurchase program does not obligate the Company to acquire any specific number of shares. The Company anticipates that it will utilize approximately \$45 billion of domestic cash to pay dividends, repurchase shares, and to remit withheld taxes related to net share settlement of RSUs in the first three years of the dividend and stock repurchase programs. The Company anticipates the cash used for future dividends and the repurchase program will come primarily from current domestic cash and from on-going U.S. operating activities and the cash generated from such activities.

On July 24, 2012, the Board of Directors declared a dividend of \$2.65 per share to shareholders of record as of the close of business on August 13, 2012, payable on August 16, 2012. The Company expects to pay approximately \$2.5 billion in conjunction with this dividend in the fourth quarter of 2012.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company has not entered into any transactions with unconsolidated entities whereby the Company has financial guarantees, subordinated retained interests, derivative instruments, or other contingent arrangements that expose the Company to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to the Company.

Lease Commitments

The Company's major facility leases are typically for terms not exceeding 10 years and generally provide renewal options for terms not exceeding five additional years. Leases for retail space are for terms ranging from five to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. As of June 30, 2012, the Company's total future minimum lease payments under noncancelable operating leases were \$4.1 billion, of which \$3.0 billion related to leases for retail space.

Long-Term Supply Agreements

As of June 30, 2012, the Company had outstanding off-balance sheet commitments under certain long-term supply agreements to make inventory component prepayments and to acquire capital equipment to be used to manufacture such components of \$302 million.

Purchase Commitments with Outsourcing Partners and Component Suppliers

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company's products and to perform final assembly and testing of finished products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. As of June 30, 2012, the Company had outstanding off-balance sheet third-party manufacturing commitments and component purchase commitments of \$13.6 billion.

Other Obligations

In addition to the off-balance sheet commitments mentioned above, the Company had outstanding obligations of \$4.5 billion as of June 30, 2012, that were comprised mainly of commitments to acquire capital assets, including product tooling and manufacturing process equipment, and commitments related to advertising, research and development, Internet and telecommunications services and other obligations.

The Company's other non-current liabilities in the Condensed Consolidated Balance Sheets consist primarily of deferred tax liabilities, gross unrecognized tax benefits and the related gross interest and penalties. As of June 30, 2012, the Company had non-current deferred tax liabilities of \$13.2 billion. Additionally, as of June 30, 2012, the Company had gross unrecognized tax benefits of \$1.8 billion and an additional \$343 million for gross interest and penalties classified as non-current liabilities. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments due to uncertainties in the timing of tax audit outcomes.

Indemnification

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. However, the Company has not been required to make any significant payments resulting from such an infringement claim asserted against it or an indemnified third-party. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss with respect to indemnification of end-users of its operating system or application software for infringement of third-party intellectual property rights. The Company did not record a liability for infringement costs related to indemnification as of June 30, 2012 or September 24, 2011.

The Company has entered into indemnification agreements with its directors and executive officers. Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors and officers liability insurance coverage to reduce its exposure to such obligations, and payments made under these agreements historically have not been material.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's market risk disclosures set forth in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk of its 2011 Form 10-K have not changed materially for the nine months ended June 30, 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of June 30, 2012 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the third quarter of 2012, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

The Company is subject to the various legal proceedings and claims discussed below as well as certain other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies. However, the outcome of legal proceedings and claims brought against the Company are subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected. See the risk factors *The Company is frequently the subject of intellectual property litigation, and could be found to have infringed on intellectual property rights* and *The Company could be impacted by unfavorable results of legal proceedings* in Part II, Item 1A, Risk Factors of this Form 10-Q. The Company settled certain matters during the third quarter of 2012 that did not individually or in the aggregate have a material impact on the Company's financial condition and results of operations.

The Apple iPod iTunes Antitrust Litigation (formerly Charoensak v. Apple Computer, Inc. and Tucker v. Apple Computer, Inc.); Somers v. Apple Inc.

These related cases have been filed on January 3, 2005, July 21, 2006 and December 31, 2007 in the United States District Court for the Northern District of California on behalf of a purported class of direct and indirect purchasers of iPods and iTunes Store content, alleging various claims including alleged unlawful tying of music and video purchased on the iTunes Store with the purchase of iPods and unlawful acquisition or maintenance of monopoly market power under §§1 and 2 of the Sherman Act, the Cartwright Act, California Business & Professions Code §17200 (unfair competition), the California Consumer Legal Remedies Act and California monopolization law. Plaintiffs are seeking unspecified compensatory and punitive damages for the class, treble damages, injunctive relief, disgorgement of revenues and/or profits and attorneys fees. Plaintiffs are also seeking digital rights management free versions of any songs downloaded from iTunes or an order requiring the Company to license its digital rights management to all competing music players. The cases are currently pending.

Apple eBooks Antitrust Litigation (United States of America v. Apple Inc., et al.)

On April 11, 2012, the U.S. Department of Justice (DOJ) filed a civil antitrust action against the Company and five major book publishers in the U.S. District Court for the Southern District of New York, alleging an unreasonable restraint of interstate trade and commerce in violation of §1 of the Sherman Act and seeking, among other things, injunctive relief, the District Court's declaration that the Company's agency agreements with the publishers are null and void and/or the District Court's reformation of such agreements. The DOJ's complaint asserts, among other things, that the decision by the five publishers to shift to an agency model to sell eBooks and their agreements with the Company were an attempt to raise, fix and stabilize retail e-book prices, to end price competition among e-book retailers, and to limit retail price competition. The Company filed a response to the DOJ complaint in late May 2012, denying the DOJ's allegations, and it intends to vigorously contest the lawsuit. The lawsuit is now in discovery, with an initial trial date set for June 2013.

Item 1A. Risk Factors

The following description of risk factors includes any material changes to and supersedes the description of risk factors associated with the Company's business previously disclosed in Part I, Item 1A, Risk Factors, of the Company's 2011 Form 10-K. The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause the Company's actual results of operations and financial condition to vary materially from past, or from anticipated future, results of operations and financial condition. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, results of operations and common stock price.

Because of the following factors, as well as other factors affecting the Company's financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Global economic conditions could materially adversely affect the Company.

The Company's operations and performance depend significantly on worldwide economic conditions. Uncertainty about global economic conditions poses a risk as consumers and businesses postpone spending in response to tighter credit, unemployment, negative financial news and/or declines in income or asset values. For example, the continuing sovereign debt crisis, financial market volatility, and other factors in Europe have resulted in reduced consumer and business confidence and spending in many countries. These worldwide and regional economic conditions could have a material adverse effect on demand for the Company's products and services. Demand also could differ materially from the Company's expectations because the Company generally raises prices on goods and services sold outside the U.S. to correspond with the effect of a strengthening of the U.S. dollar. Other factors that could influence demand include increases in fuel and other energy costs, conditions in the real estate and mortgage markets, unemployment, labor and healthcare costs, access to credit, consumer confidence, and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could materially adversely affect demand for the Company's products and services.

In the event of financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry, or significant financial service institution failures, there could be a new or incremental tightening in the credit markets, low liquidity, and extreme volatility in fixed income, credit, currency, and equity markets. This could have a number of effects on the Company's business, including the insolvency or financial instability of outsourcing partners or suppliers or their inability to obtain credit to finance development and/or manufacture products resulting in product delays; inability of customers, including channel partners, to obtain credit to finance purchases of the Company's products; and failure of derivative counterparties and other financial institutions. Other income and expense also could vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments; impairment charges resulting from revaluations of debt and equity securities and other investments; interest rates; cash balances; and changes in fair value of derivative instruments. Increased volatility in the financial markets and overall economic uncertainty would increase the risk of the actual amounts realized in the future on the Company's financial instruments differing significantly from the fair values currently assigned to them.

Global markets for the Company's products and services are highly competitive and subject to rapid technological change, and the Company may be unable to compete effectively in these markets.

The Company's products and services compete in highly competitive global markets characterized by aggressive price cutting and resulting downward pressure on gross margins, frequent introduction of new products, short product life cycles, evolving industry standards, continual improvement in product price/performance characteristics, rapid adoption of technological and product advancements by competitors, and price sensitivity on the part of consumers.

The Company's ability to compete successfully depends heavily on its ability to ensure a continuing and timely introduction of innovative new products and technologies to the marketplace. The Company believes it is unique in that it designs and develops nearly the entire solution for its products, including the hardware, operating system, numerous software applications, and related services. As a result, the Company must make significant investments in research and development, and as such, the Company currently holds a significant number of patents and copyrights and has registered and/or has applied to register numerous patents, trademarks and service marks. By contrast, many of the Company's competitors seek to compete primarily through aggressive pricing and very low cost structures, and emulating the Company's products and infringing its intellectual property. If the Company is unable to continue to develop and sell innovative new products with attractive margins or if competitors infringe on the Company's intellectual property, the Company's ability to maintain a competitive advantage could be adversely affected.

The Company markets certain mobile communication and media devices based on the iOS mobile operating system and also markets related third-party digital content and applications. The Company faces substantial competition in these markets from companies that have significant technical, marketing, distribution and other resources, as well as established hardware, software and digital content supplier relationships. Additionally, the Company faces significant price competition as competitors reduce their selling prices and attempt to imitate the Company's product features and applications within their own products or, alternatively, collaborate with each other to offer solutions that are more competitive than those they currently offer. The Company also competes with illegitimate ways to obtain third-party digital content and applications. The Company has entered the mobile communications and media device markets, and some of its competitors in these markets have greater experience, product breadth and distribution channels than the Company. Because some current and potential competitors have substantial resources and/or experience and a lower cost structure, they may be able to provide such products and services at little or no profit or even at a loss. The Company also expects competition to intensify as competitors attempt to imitate the Company's approach to providing these components seamlessly within their individual offerings or work collaboratively to offer integrated solutions. The Company's financial condition and operating results depend substantially on the Company's ability to continually improve iOS and iOS devices in order to maintain their functional and design advantages.

The Company is the only authorized maker of hardware using OS X, which has a minority market share in the personal computer market. This market is dominated by computer makers using competing operating systems, most notably Windows. In the market for personal computers and peripherals, the Company faces a significant number of competitors, many of which have broader product lines, lower priced products, and a larger installed customer base. Consolidation in this market has resulted in larger and potentially stronger competitors. Price competition has been particularly intense as competitors selling Windows-based personal computers have aggressively cut prices and lowered product margins. An increasing number of Internet-enabled devices that include software applications and are smaller and simpler than traditional personal computers compete for market share with the Company's existing products. The Company's financial condition and operating results depend substantially on its ability to continually improve the Mac platform to maintain its functional and design advantages.

There can be no assurance the Company will be able to continue to provide products and services that compete effectively.

To remain competitive and stimulate customer demand, the Company must successfully manage frequent product introductions and transitions.

Due to the highly volatile and competitive nature of the industries in which the Company competes, the Company must continually introduce new products, services and technologies, enhance existing products and services, and effectively stimulate customer demand for new and upgraded products. The success of new product introductions depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, the Company's ability to manage the risks associated with new products and production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and costs to meet anticipated demand, and the risk that new products may have quality or other defects in the early stages of introduction. Accordingly, the Company cannot determine in advance the ultimate effect of new product introductions and transitions.

The Company faces substantial inventory and other asset risk in addition to purchase commitment cancellation risk.

The Company records a write-down for product and component inventories that have become obsolete or exceed anticipated demand or net realizable value and accrues necessary cancellation fee reserves for orders of excess products and components. The Company also reviews its long-lived assets for impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the Company determines that impairment has occurred, it records a write-down equal to the amount by which the carrying value of the assets exceeds its fair market value. Although the Company believes its provisions related to inventory, capital assets, other assets and purchase commitments are currently adequate, no assurance can be given that the Company will not incur additional related charges given the rapid and unpredictable pace of product obsolescence in the industries in which the Company competes.

The Company must order components for its products and build inventory in advance of product announcements and shipments. Consistent with industry practice, components are normally acquired through a combination of purchase orders, supplier contracts, open orders and, where appropriate, inventory component prepayments, in each case based on projected demand. Such purchase commitments typically cover forecasted component and manufacturing requirements for periods up to 150 days. Because the Company's markets are volatile, competitive and subject to rapid technology and price changes, there is a risk the Company will forecast incorrectly and order or produce excess or insufficient amounts of components or products, or not fully utilize firm purchase commitments.

Future operating results depend upon the Company's ability to obtain components in sufficient quantities.

Because the Company currently obtains components from single or limited sources, the Company is subject to significant supply and pricing risks. Many components that are available from multiple sources are at times subject to industry-wide shortages and significant commodity pricing fluctuations. While the Company has entered into various agreements for the supply of components, there can be no assurance that the Company will be able to extend or renew these agreements on similar terms, or at all. The follow-on effects from global economic conditions on the Company's suppliers, described in *Global economic conditions could materially adversely affect the Company* above, also could affect the Company's ability to obtain components. Therefore, the Company remains subject to significant risks of supply shortages and price increases. The Company expects to experience decreases in its gross margin percentage in future periods, as compared to levels achieved during the first nine months of 2012, largely due to a higher mix of new and innovative products with flat or reduced pricing that have higher cost structures and deliver greater value to customers, a stronger U.S. dollar, and potential future component cost and other cost increases.

The Company and other participants in the mobile communication and media device, and personal computer industries compete for various components with other industries that have experienced increased demand for their products. The Company uses some custom components that are not common to the rest of these industries. The Company's new products often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers decided to concentrate on the production of common components instead of components customized to meet the Company's requirements. The supply of components for a new or existing product could be delayed or constrained, or a key manufacturing vendor could delay shipments of completed products to the Company.

The Company depends on component and product manufacturing and logistical services provided by outsourcing partners, many of whom are located outside of the U.S.

Substantially all of the Company's manufacturing is performed in whole or in part by a few outsourcing partners primarily located in Asia. The Company has also outsourced much of its transportation and logistics management. While these arrangements may lower operating costs, they also reduce the Company's direct control over production and distribution. It is uncertain what effect such diminished control will have on the quality or quantity of products or services, or the Company's flexibility to respond to changing conditions. Although arrangements with these partners may contain provisions for warranty expense reimbursement, the Company may remain responsible to the consumer for warranty service in the event of product defects and could experience an unanticipated product defect or warranty liability. While the Company relies on its partners to adhere to its supplier code of conduct, material violations of the supplier code of conduct could occur.

The supply and manufacture of many critical components is performed by sole-sourced outsourcing partners in the U.S., Asia and Europe. Single-sourced outsourcing partners in Asia perform final assembly of substantially all of the Company's hardware products. Manufacturing or logistics in these locations or transit to final destinations may be disrupted for a variety of reasons including, but not limited to, natural and man-made disasters, information technology system failures, military actions or economic, business, labor, environmental, public health, or political issues.

The Company relies on third-party intellectual property and digital content, which may not be available to the Company on commercially reasonable terms or at all.

Many of the Company's products include third-party intellectual property, which requires licenses from those third parties. Based on past experience and industry practice, the Company believes such licenses generally can be obtained on reasonable terms. There is, however, no assurance that the necessary licenses can be obtained on acceptable terms or at all.

The Company also contracts with third parties to offer their digital content through the iTunes Store. The licensing arrangements with these third parties are short-term and do not guarantee the continuation or renewal of these arrangements on reasonable terms, if at all. Some third-party content providers currently or in the future may offer competing products and services, and could take action to make it more difficult or impossible for the Company to license their content in the future. Other content owners, providers or distributors may seek to limit the Company's access to, or increase the cost of, such content. The Company may be unable to continue to offer a wide variety of content at reasonable prices with acceptable usage rules, or continue to expand its geographic reach.

Many third-party content providers require the Company to provide digital rights management and other security solutions. If requirements change, the Company may have to develop or license new technology to provide these solutions. There is no assurance the Company will be able to develop or license such solutions at a reasonable cost and in a timely manner. In addition, certain countries have passed or may propose and adopt legislation that would force the Company to license its digital rights management, which could lessen the protection of content and subject it to piracy and also could negatively affect arrangements with the Company's content providers.

The Company is frequently the subject of intellectual property litigation, and could be found to have infringed on intellectual property rights.

Technology companies, including many of the Company's competitors, frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. As the Company has grown, the intellectual property rights claims against it have increased and may continue to increase. In particular, the Company's cellular enabled products compete with mobile communication and media device companies that hold significant patent portfolios, and the number of patent claims against the Company has significantly increased. The Company is vigorously defending infringement actions in courts in a number of U.S. jurisdictions and before the U.S. International Trade Commission, as well as internationally in Europe and Asia. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, the Company may have to engage in protracted litigation. If the Company is found to infringe one or more patents or other intellectual property rights, regardless of whether it can develop non-infringing technology, it may be required to pay substantial damages or royalties to a third-party, or it may be subject to a temporary or permanent injunction prohibiting the Company from marketing or selling certain products.

In certain cases, the Company may consider the desirability of entering into licensing agreements, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase the Company's operating expenses.

In management's opinion, there is not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies, including matters related to infringement of intellectual property rights. However, the outcome of litigation is inherently uncertain. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected.

The Company's future performance depends in part on support from third-party software developers.

The Company believes decisions by customers to purchase its hardware products depend in part on the availability of third-party software applications and services. There is no assurance that third-party developers will continue to develop and maintain software applications and services for the Company's products. If third-party software applications and services cease to be developed and maintained for the Company's products, customers may choose not to buy the Company's products.

With respect to its Mac products, the Company believes the availability of third-party software applications and services depends in part on the developers' perception and analysis of the relative benefits of developing, maintaining, and upgrading such software for the Company's products compared to Windows-based products. This analysis may be based on factors such as the perceived strength of the Company and its products, the anticipated revenue that may be generated, continued acceptance by customers of OS X, and the costs of developing such applications and services. If the Company's minority share of the global personal computer market causes developers to question the Company's prospects, developers could be less inclined to develop or upgrade software for the Company's products and more inclined to devote their resources to developing and upgrading software for the larger Windows market.

With respect to iOS devices, the Company relies on the continued availability and development of compelling and innovative software applications, which are distributed through a single distribution channel, the App Store. The absence of multiple distribution channels, which are available for competing platforms, may limit the availability and acceptance of third-party applications by the Company's customers, thereby causing developers to reduce or curtail development for the iOS platform. In addition, iOS devices are subject to rapid technological change, and, if third-party developers are unable to or choose not to keep up with this pace of change, third-party applications might not successfully operate and may result in dissatisfied customers. As with applications for the Company's Mac products, the availability and development of these applications also depend on developers' perceptions and analysis of the relative benefits of developing software for the Company's products rather than its competitors' products, including devices that use competing platforms. If developers focus their efforts on these competing platforms, the availability and quality of applications for the Company's iOS devices may suffer.

The Company depends on the performance of distributors, carriers and other resellers.

The Company distributes its products through wholesalers, resellers, national and regional retailers, and value-added resellers, many of whom distribute products from competing manufacturers. The Company also sells many of its products and third-party products in most of its major markets directly to education customers, cellular network carriers' distribution channels, resellers and consumers through its online and retail stores.

Carriers providing cellular network service for iPhone typically subsidize users' purchase of the device. There is no assurance that such subsidies will be continued at all or in the same amounts upon renewal of the Company's agreements with these carriers or in agreements the Company enters into with new carriers.

Many resellers have narrow operating margins and have been adversely affected in the past by weak economic conditions. Some resellers have perceived the expansion of the Company's direct sales as conflicting with their business interests as distributors and resellers of the Company's products. Such a perception could discourage resellers from investing resources in the distribution and sale of the Company's products or lead them to limit or cease distribution of those products. The Company has invested and will continue to invest in programs to enhance reseller sales, including staffing selected resellers' stores with Company employees and contractors and improving product placement displays. These programs could require a substantial investment while providing no assurance of return or incremental revenue. The financial condition of these resellers could weaken, these resellers could stop distributing the Company's products, or uncertainty regarding demand for the Company's products could cause resellers to reduce their ordering and marketing of the Company's products.

The Company's Retail segment has required and will continue to require a substantial investment and commitment of resources and is subject to numerous risks and uncertainties.

The Company's retail stores have required substantial fixed investment in equipment and leasehold improvements, information systems, inventory and personnel. The Company also has entered into substantial operating lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness and serve as vehicles for corporate sales and marketing activities. Because of their unique design elements, locations and size, these high-profile stores require substantially more investment than the Company's more typical retail stores. Due to the high fixed cost structure associated with the Retail segment, a decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements, and severance costs.

Many factors unique to retail operations, some of which are beyond the Company's control, pose risks and uncertainties. These risks and uncertainties include, but are not limited to, macro-economic factors that could have an adverse effect on general retail activity, as well as the Company's inability to manage costs associated with store construction and operation, inability to sell third-party products at adequate margins, failure to manage relationships with its existing retail channel partners, more challenging environment in managing retail operations outside the U.S., costs associated with unanticipated fluctuations in the value of retail inventory, and inability to obtain and renew leases in quality retail locations at a reasonable cost.

Investment in new business strategies and acquisitions could disrupt the Company's ongoing business and present risks not originally contemplated.

The Company has invested, and in the future may invest, in new business strategies or acquisitions. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, insufficient revenue to offset liabilities assumed and expenses associated with the strategy, inadequate return of capital, and unidentified issues not discovered in the Company's due diligence. These new ventures are inherently risky and may not be successful.

The Company's products and services may experience quality problems from time-to-time that can result in decreased sales and operating margin.

The Company sells complex hardware and software products and services that can contain design and manufacturing defects. Sophisticated operating system software and applications, such as those sold by the Company, often contain bugs that can unexpectedly interfere with the software's intended operation. The Company's online services may from time-to-time experience outages, service slowdowns, or errors. Defects may also occur in components and products the Company purchases from third parties. There can be no assurance the Company will be able to detect and fix all defects in the hardware, software and services it sells. Failure to do so could result in lost revenue, significant warranty and other expenses, and harm to the Company's reputation.

The Company is subject to laws and regulations worldwide, changes to which could increase the Company's costs and individually or in the aggregate adversely affect the Company's business.

The Company is subject to laws and regulations affecting its domestic and international operations in a number of areas. These U.S. and foreign laws and regulations affect the Company's activities including, but not limited to, areas of labor, advertising, digital content, consumer protection, real estate, billing, e-commerce, promotions, quality of services, telecommunications, mobile communications and media, television, intellectual property ownership and infringement, tax, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy requirements, anti-competition, environmental, health, and safety.

By way of example, laws and regulations related to mobile communications and media devices in the many jurisdictions in which the Company operates are extensive and subject to change. Such changes could include, among others, restrictions on the production, manufacture, distribution, and use of the device, locking the device to a carrier's network, or mandating the use of the device on more than one carrier's network. These devices are also subject to certification and regulation by governmental and standardization bodies, as well as by cellular network carriers for use on their networks. These certification processes are extensive and time consuming, and could result in additional testing requirements, product modifications, delays in product shipment dates, or preclude the Company from selling certain products.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance. This increases the costs of doing business, and any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation could individually or in the aggregate make the Company's products and services less attractive to the Company's customers, delay the introduction of new products in one or more regions, or cause the Company to change or limit its business practices. The Company has implemented policies and procedures designed to ensure compliance with these laws and regulations, but there can be no assurance that the Company's employees, contractors, or agents will not violate such laws and regulations or the Company's policies.

The Company's success depends largely on the continued service and availability of key personnel.

Much of the Company's future success depends on the continued availability and service of key personnel, including its Chief Executive Officer, executive team and highly skilled employees. Experienced personnel in the technology industry are in high demand and competition for their talents is intense, especially in the Silicon Valley, where most of the Company's key personnel are located.

The Company's business may be impacted by political events, war, terrorism, public health issues, natural disasters and other circumstances.

War, terrorism, geopolitical uncertainties, public health issues, and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on the Company, its suppliers, logistics providers, manufacturing vendors and customers, including channel partners. The Company's business operations are subject to interruption by natural disasters, fire, power shortages, nuclear power plant accidents, terrorist attacks, and other hostile acts, labor disputes, public health issues, and other events beyond its control. Such events could decrease demand for the Company's products, make it difficult or impossible for the Company to make and deliver products to its customers, including channel partners, or to receive components from its suppliers, and create delays and inefficiencies in the Company's supply chain. Should major public health issues, including pandemics, arise, the Company could be adversely affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products, and disruptions in the operations of the Company's manufacturing vendors and component suppliers. The majority of the Company's research and development activities, its corporate headquarters, information technology systems, and other critical business operations, including certain component suppliers and manufacturing vendors, are in locations that could be affected by natural disasters. In the event of a natural disaster, losses, significant recovery time and substantial expenditures could be required to resume operations.

The Company's business and reputation may be impacted by information technology system failures or network disruptions.

The Company may be subject to information technology system failures and network disruptions. These may be caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or similar events or disruptions. System redundancy may be ineffective or inadequate, and the Company's disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could prevent access to the Company's online stores and services, preclude retail store transactions, compromise Company or customer data, and result in delayed or cancelled orders. System failures and disruptions could also impede the manufacturing and shipping of products, delivery of online services, transactions processing and financial reporting.

The Company may be subject to breaches of its information technology systems, which could damage business partner and customer relationships, curtail or otherwise adversely impact access to online stores and services, and could subject the Company to significant reputational, financial, legal, and operational consequences.

The Company's business requires it to use and store customer, employee, and business partner personally identifiable information (PII). This may include names, addresses, phone numbers, email addresses, contact preferences, tax identification numbers, and payment account information. Although malicious attacks to gain access to PII affect many companies across various industries, the Company may be at a relatively greater risk of being targeted because of its high profile and the amount of PII managed.

The Company requires user names and passwords in order to access its information technology systems. The Company also uses encryption and authentication technologies to secure the transmission and storage of data. These security measures may be compromised as a result of third-party security breaches, employee error, malfeasance, faulty password management, or other irregularity, and result in persons obtaining unauthorized access to Company data or accounts. Third parties may attempt to fraudulently induce employees or customers into disclosing user names, passwords or other sensitive information, which may in turn be used to access the Company's information technology systems. To help protect customers and the Company, the Company monitors accounts and systems for unusual activity and may freeze accounts under suspicious circumstances, which may result in the delay or loss of customer orders.

The Company devotes significant resources to network security, data encryption, and other security measures to protect its systems and data, but these security measures cannot provide absolute security. The Company may experience a breach of its systems and may be unable to protect sensitive data. Moreover, if a computer security breach affects the Company's systems or results in the unauthorized release of PII, the Company's reputation and brand could be materially damaged and use of the Company's products and services could decrease. The Company would also be exposed to a risk of loss or litigation and possible liability.

The Company's business is subject to a variety of U.S. and international laws, rules, policies and other obligations regarding data protection.

The Company is subject to federal, state and international laws relating to the collection, use, retention, security and transfer of PII. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between the Company and its subsidiaries, and among the Company, its subsidiaries and other parties with which the Company has commercial relations. Several jurisdictions have passed new laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause the Company to incur substantial costs or require the Company to change its business practices. Noncompliance could result in penalties or significant legal liability.

The Company's privacy policy and related practices concerning the use and disclosure of data are posted on its website. Any failure by the Company, its suppliers or other parties with whom the Company does business to comply with its posted privacy policy or with other federal, state or international privacy-related or data protection laws and regulations could result in proceedings against the Company by governmental entities or others.

The Company is also subject to payment card association rules and obligations under its contracts with payment card processors. Under these rules and obligations, if information is compromised, the Company could be liable to payment card issuers for the cost of associated expenses and penalties. In addition, if the Company fails to follow payment card industry security standards, even if no customer information is compromised, the Company could incur significant fines or experience a significant increase in payment card transaction costs.

The Company expects its quarterly revenue and operating results to fluctuate.

The Company's profit margins vary among its products and its distribution channels. The Company's software, accessories, and service and support contracts generally have higher gross margins than certain of the Company's other products. Gross margins on the Company's hardware products vary across product lines and can change over time as a result of product transitions, pricing and configuration changes, and component, warranty, and other cost fluctuations. The Company's direct sales generally have higher associated gross margins than its indirect sales through its channel partners. In addition, the Company's gross margin and operating margin percentages, as well as overall profitability, may be materially adversely impacted as a result of a shift in product, geographic or channel mix, new products, component cost increases, strengthening U.S. dollar, or price competition. The Company has typically experienced greater net sales in the first fiscal quarter compared to other fiscal quarters due to increased holiday seasonal demand. The Company could be subject to unexpected developments late in a quarter, such as lower-than-anticipated demand for the Company's products, issues with new product introductions, an internal systems failure, or failure of one of the Company's logistics, components supply, or manufacturing partners.

The Company's stock price is subject to volatility.

The Company's stock continues to experience substantial price volatility. Additionally, the Company, the technology industry, and the stock market as a whole have experienced extreme price and volume fluctuations that have affected stock prices in ways that may have been unrelated to these companies' operating performance. The Company believes its stock price reflects high future growth and profitability expectations. If the Company fails to meet these expectations its stock price may significantly decline, which could have a material adverse impact on investor confidence and employee retention.

The Company's business is subject to the risks of international operations.

The Company derives a significant portion of its revenue and earnings from its international operations. Compliance with applicable U.S. and foreign laws and regulations, such as import and export requirements, anti-corruption laws, tax laws, foreign exchange controls and cash repatriation restrictions, data privacy requirements, environmental laws, labor laws, and anti-competition regulations, increases the costs of doing business in foreign jurisdictions. Although the Company has implemented policies and procedures to comply with these laws and regulations, a violation by the Company's employees, contractors, or agents could nevertheless occur.

The Company also could be significantly affected by other risks associated with international activities including, but not limited to, economic and labor conditions, increased duties, taxes and other costs, political instability, and changes in the value of the U.S. dollar versus local currencies. Margins on sales of the Company's products in foreign countries, and on sales of products that include components obtained from foreign suppliers, could be materially adversely affected by foreign currency exchange rate fluctuations and by international trade regulations, including duties, tariffs and antidumping penalties. The Company is also exposed to credit and collectability risk on its trade receivables with customers in certain international markets. There can be no assurance the Company can effectively limit its credit risk and avoid losses.

The Company's primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar denominated sales and operating expenses worldwide. For example, the uncertainty regarding the ability of certain European countries to continue to service their sovereign debt obligations and the related financial restructuring efforts by European governments may cause the value of several European currencies, including the euro to fluctuate, which could adversely affect the Company's non-U.S. dollar sales and operating expenses in the impacted jurisdictions. Weakening of foreign currencies relative to the U.S. dollar will adversely affect the U.S. dollar value of the Company's foreign currency-denominated sales and earnings, and generally will lead the Company to raise international pricing, potentially reducing demand for the Company's products. In some circumstances, due to competition or other reasons, the Company may decide not to raise local prices to the full extent of the dollar's strengthening, or at all, which would adversely affect the U.S. dollar value of the Company's foreign currency-denominated sales and earnings. Conversely, a strengthening of foreign currencies, while generally beneficial to the Company's foreign currency-denominated sales and earnings, could cause the Company to reduce international pricing and incur losses on its foreign currency derivative instruments, thereby limiting the benefit. Additionally, strengthening of foreign currencies may also increase the Company's cost of product components denominated in those currencies, thus adversely affecting gross margins.

The Company has used derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place.

The Company is exposed to credit risk and fluctuations in the market values of its investment portfolio.

The Company has not recognized any significant losses on its cash, cash equivalents and marketable securities, but could experience significant declines in the market value of its investment portfolio. Given the global nature of its business, the Company has both domestic and international investments. Credit ratings and pricing of these investments can be negatively affected by liquidity, credit deterioration, financial results, economic risk, political risk, sovereign risk or other factors. As a result, the value and liquidity of the Company's cash, cash equivalents and marketable securities could decline and result in a significant impairment.

The Company is exposed to credit risk on its trade accounts receivable, vendor non-trade receivables and prepayments related to long-term supply agreements, and this risk is heightened during periods when economic conditions worsen.

The Company distributes its products through third-party cellular network carriers, wholesalers, retailers and value-added resellers. A substantial majority of the Company's outstanding trade receivables are not covered by collateral or credit insurance. The Company's exposure to credit and collectability risk on its trade receivables is higher in certain international markets and its ability to mitigate such risks may be limited. Cellular network carriers accounted for a significant portion of the Company's trade receivables as of June 30, 2012. The Company also has unsecured vendor non-trade receivables resulting from purchases of components by outsourcing partners and other vendors that manufacture sub-assemblies or assemble final products for the Company. Two vendors accounted for a significant portion of the Company's non-trade receivables as of June 30, 2012. In addition, the Company has made prepayments associated with long-term supply agreements to secure supply of inventory components. While the Company has procedures to monitor and limit exposure to credit risk on its trade and vendor non-trade receivables as well as long-term prepayments, there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

The Company could be impacted by unfavorable results of legal proceedings.

The Company is subject to various legal proceedings and claims that have not yet been fully resolved and that have arisen in the ordinary course of business, and additional claims may arise in the future. Results of legal proceedings are subject to significant uncertainty and, regardless of the merit of the claims, litigation may be expensive, time-consuming, disruptive to the Company's operations, and distracting to management. In recognition of these considerations, the Company may enter into arrangements to settle litigation.

Although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected. Further, such an outcome could result in significant compensatory, punitive or trebled monetary damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief against the Company that could materially adversely affect its financial condition and operating results.

The Company could be subject to changes in its tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities.

The Company is subject to taxes in the U.S. and numerous foreign jurisdictions. The Company's future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation. The Company is also subject to the examination of its tax returns by the Internal Revenue Service and other tax authorities. The Company regularly assesses the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for taxes. There can be no assurance as to the outcome of these examinations.

Item 6. Exhibits
Index to Exhibits

| Exhibit Number | Exhibit Description | Incorporated by Reference | | |
|-------------------|--|---------------------------|---------|----------------------------|
| | | Form | Exhibit | Filing Date/ Period End |
| 3.1 | Restated Articles of Incorporation, filed with the Secretary of State of the State of California on July 10, 2009. | 10-Q | 3.1 | 6/27/09 |
| 3.2 | Amended Bylaws of the Registrant, as of April 20, 2011. | 10-Q | 3.2 | 3/26/11 |
| 4.1 | Form of Common Stock Certificate of the Registrant. | 10-Q | 4.1 | 12/30/06 |
| 10.1* | Amended Employee Stock Purchase Plan, effective as of March 8, 2010. | 10-Q | 10.1 | 3/27/10 |
| 10.2* | Form of Indemnification Agreement between the Registrant and each director and executive officer of the Registrant. | 10-Q | 10.2 | 6/27/09 |
| 10.3*, ** | 1997 Director Stock Plan, as amended through May 24, 2012. | | | |
| 10.4* | 2003 Employee Stock Plan, as amended through February 25, 2010. | 8-K | 10.1 | 3/1/10 |
| 10.5* | Form of Restricted Stock Unit Award Agreement effective as of November 11, 2008. | 10-Q | 10.10 | 12/27/08 |
| 10.6* | Form of Restricted Stock Unit Award Agreement effective as of November 16, 2010. | 10-Q | 10.10 | 12/25/10 |
| 10.7* | Form of Restricted Stock Unit Award Agreement effective as of April 6, 2012. | 10-Q | 10.8 | 3/31/12 |
| 10.8*, ** | Summary Description of Amendment, effective as of May 24, 2012, to certain Restricted Stock Unit Award Agreements outstanding as of April 5, 2012. | | | |
| 14.1 | Business Conduct Policy of the Registrant dated January 2012. | 10-Q | 14.1 | 3/31/12 |
| 31.1** | Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer. | | | |
| 31.2** | Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer. | | | |
| 32.1*** | Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer. | | | |
| 101.INS** | XBRL Instance Document. | | | |
| 101.SCH** | XBRL Taxonomy Extension Schema Document. | | | |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase Document. | | | |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase Document. | | | |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase Document. | | | |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase Document. | | | |

* Indicates management contract or compensatory plan or arrangement.

** Filed herewith.

*** Furnished herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

July 25, 2012

APPLE INC.

By: /s/ Peter Oppenheimer
Peter Oppenheimer
Senior Vice President,
Chief Financial Officer